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**City of Fresno**

**MAYOR'S COUNCIL OF  
ECONOMIC ADVISORS**

# **Meeting the Challenge**

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Task Force Report on  
City Efficiencies and Revenues

**January 1, 2003**

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# Part I

## Executive Summary



# Meeting the Challenge

## EXECUTIVE SUMMARY

On July 10, 2002, Mayor Alan Autry established the Task Force on City Efficiencies and Revenues (the "Task Force"). The Task Force, comprised of two members of the Mayor's Council of Economic Advisors and three members of the City's Finance Department, set out to define recommendations aimed at the accomplishment of the following objectives:

- I. Maintain or improve City services, even in the face of budget cuts resulting from State-level cuts;
- II. Identify potential efficiencies in the delivery of city services; and
- III. Identify fiscally prudent revenue sources to invest in building a stronger foundation for Fresno's future.

To meet these goals, the Task Force undertook the following concurrent activities:

- Benchmarking of Fresno's revenues and expenditures verses those of comparable California cities;
- Identification of "Best Practices" in the best-managed cities across the U.S., and initial exploration of their potential application in Fresno;
- Development of a contingency plan in anticipation of expenditure cuts resulting from the state-level budget crisis; and
- Analysis of alternative revenue sources to meet long-term investment objectives.

The ten California cities that most closely resemble Fresno were chosen for benchmarking of expenditures and revenues (See Chart 1). These cities range in population from 244,000 in Stockton to 1,233,000 in San Diego, compared to Fresno at 428,000. Benchmarking was based almost entirely on available published data, including audited Comprehensive Annual Financial Reports ("CAFRs"), California State Controller Reports and published budgets for the Fiscal Year 2003. ***It is important to note that while this report is based on the best available published data, many of the source documents are two to three years old, so much of this report is a retrospective view that does not incorporate recent developments, either in Fresno or the benchmarked cities. It is, however, the belief of the Task Force that the conclusions formed would not be materially altered if the data were fully updated.***

The most relevant comparisons apply to the General Fund and the Internal Service Funds, since it is in these funds that City Government has the largest latitude for action. To put the contents of this report in perspective, Fresno's 2003 General Fund Departments are budgeted at \$176 million, and Internal Service Departments at \$89

## MEETING THE CHALLENGE

million. The Enterprise Funds, generally funded by user fees and other financing mechanisms with constraints, plus the Trust Funds, account for a combined \$482 million.

**Benchmark Cities  
Chart No. 1**

City	Population	% growth 1990-2000	Sq. Miles Land Area	% Housing Owner Occupied	2000 Med. Household Income	Unemploy- ment	Per Capita Income	Per Capita Taxes
San Diego	1,223,400	10.1%	324.3	49.5%	\$49,946	3.0%	\$24,443	\$370
San Jose	894,943	14.2%	174.9	61.8%	\$87,000	2.3%	\$23,619	\$499
Long Beach	461,522	7.4%	50.4	41.0%	\$40,515	5.0%	\$21,603	\$422
Fresno	427,652	20.3%	104.4	50.6%	\$46,950	12.9%	\$16,233	\$278
Sacramento	407,018	3.0%	97.2	50.1%	\$38,786	5.2%	\$20,476	\$454
Oakland	399,484	-0.1%	56.1	41.4%	\$27,095	4.7%	\$20,348	\$656
Santa Ana	377,977	14.8%	27.1	49.3%	\$54,854	4.6%	\$13,304	\$357
Anaheim	328,014	23%	48.9	50.0%	\$49,216	2.9%	\$22,722	\$473
Riverside	255,156	12.6%	78.1	56.6%	\$37,034	5.4%	\$20,549	\$299
Bakersfield	247,057	34.3%	113.1	60.5%	\$44,405	8.3%	\$19,148	\$295
Stockton	243,771	15.3%	54.7	51.6%	\$37,804	10.4%	\$16,096	\$308
Median	399,484	14.2%	78.1	50.1%	\$44,405	5.0%	\$20,476	\$370

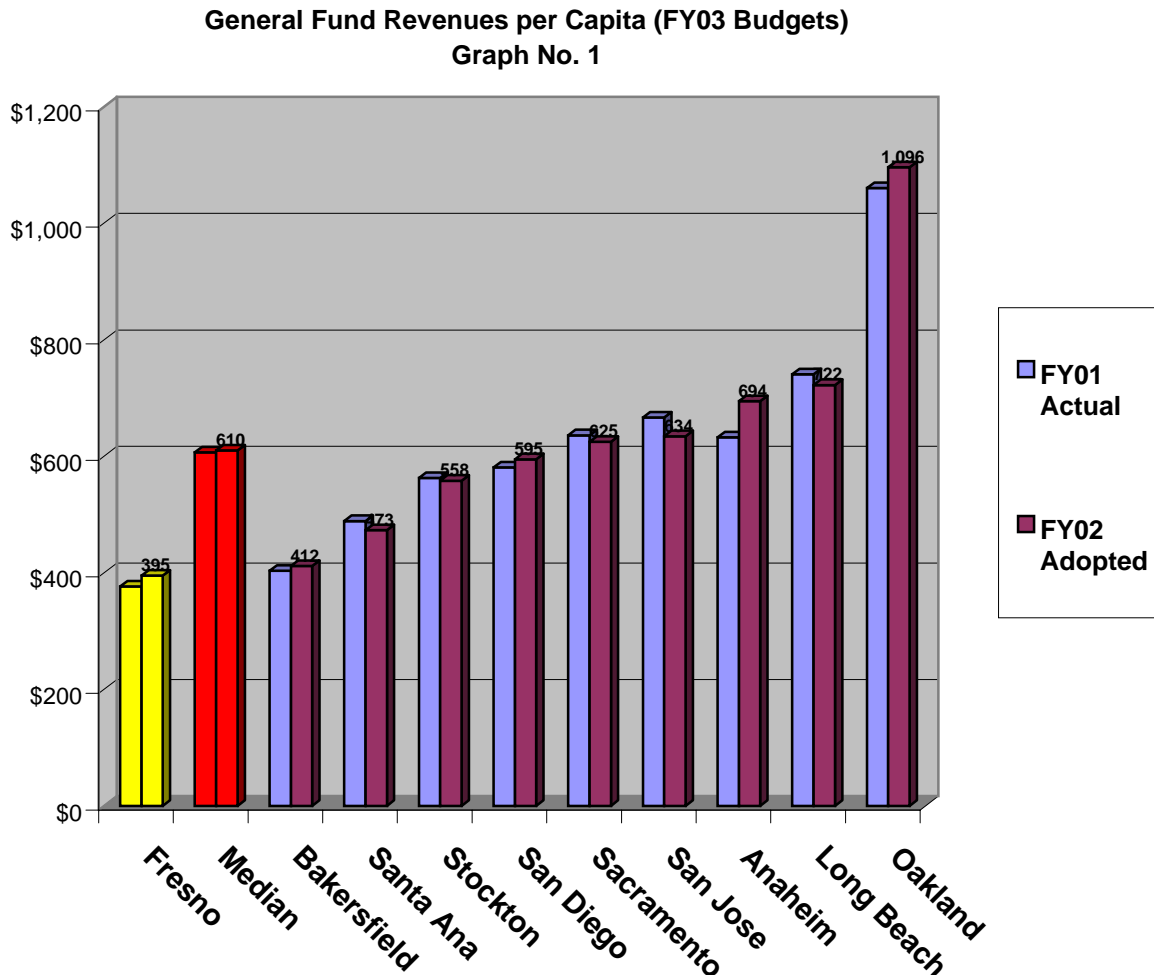
Identification of *Best Practices* was done against the best-managed cities in the U.S. Information was obtained from the International City/County Management Association (ICMA) and the U.S. Conference of Mayor's Best Practices Awards. No relevant *Best Practices* were omitted, on the reasoning that the Task Force's obligation was to identify any and all ways of making Fresno City government more efficient.

The Contingency Plan was developed by the City's Department and Division managers, under guidance and instructions from the Task Force.

## KEY FINDINGS

### 1. Fresno collects less revenue per capita than all its California peers.

Fresno's **General Fund revenues per capita** are 35% below the median of the ten benchmark cities. See Graph No. 1.

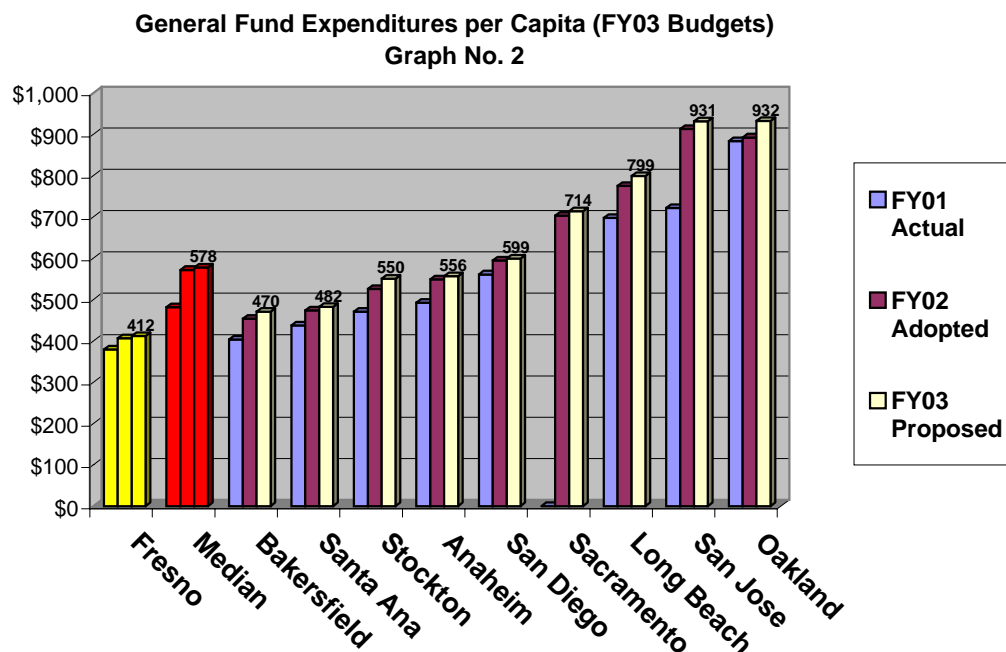


### 2. Fresno's Citizens pay less per capita in municipal taxes than their California peers.

As shown on Chart No. 1, the Citizens of Fresno pay approximately 25% less in **municipal taxes** than the median of the benchmark cities. It is noteworthy that, while Fresno **per capita income** is lower than the median, total **household income** is slightly higher than the median (because there are more wage earners per household in Fresno). Even after adjusting for the lower per capita income, Fresno citizens still pay 15% less in municipal taxes on average than their peers.

3. Fresno spends significantly less than its peers in most functions, with the notable exception of Police.

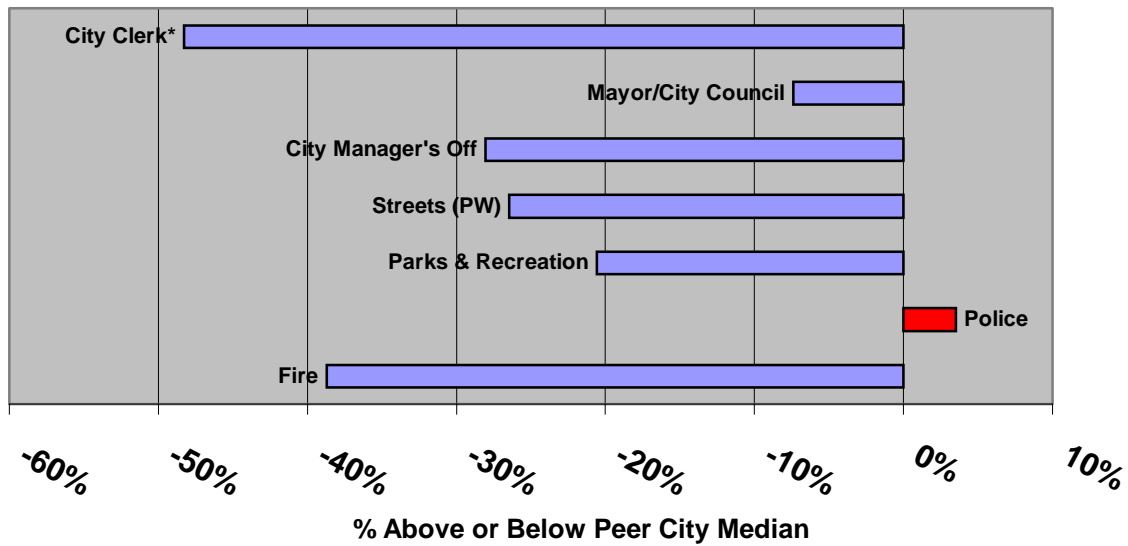
Fresno's General Fund expenditures per capita are lower than all its peers and approximately 30% below the peer median (see Graph No. 2). It is impossible to determine with precision the extent to which the significantly lower levels of **per capita spending** by Fresno in most functions is attributable to (a) lower cost of services and/or (b) higher service delivery efficiencies and/or (c) lower levels of service. Benchmarking of the per capita number of personnel (FTEs) required to deliver services suggests that lower cost of services is a contributing factor, but there is reason to believe that the other two factors are also contributors, i.e., that Fresno city government is doing more with less and that some service levels are lower than those of the peer cities.



Graph No. 3 illustrates which General Fund operations are above or below the median of the peer cities, and by what percentage. The **City Clerk's Office** is almost 50% below the median in large part because the scope of this office is narrower than it is in most other cities. The **Mayor and City Council** are combined into one category for comparability because half the cities in the peer group do not report these numbers separately. The Mayor's office in Fresno (including the Office of Education) costs taxpayers \$1.31 per capita half as much as do their counterparts in San Jose and San Diego, and one third as much as Oakland. The **City Manager's Office**, **Public Works** and **Parks and Recreation** are all 21% to 28% below the median. The **Fire Department** is almost 40% below the median.

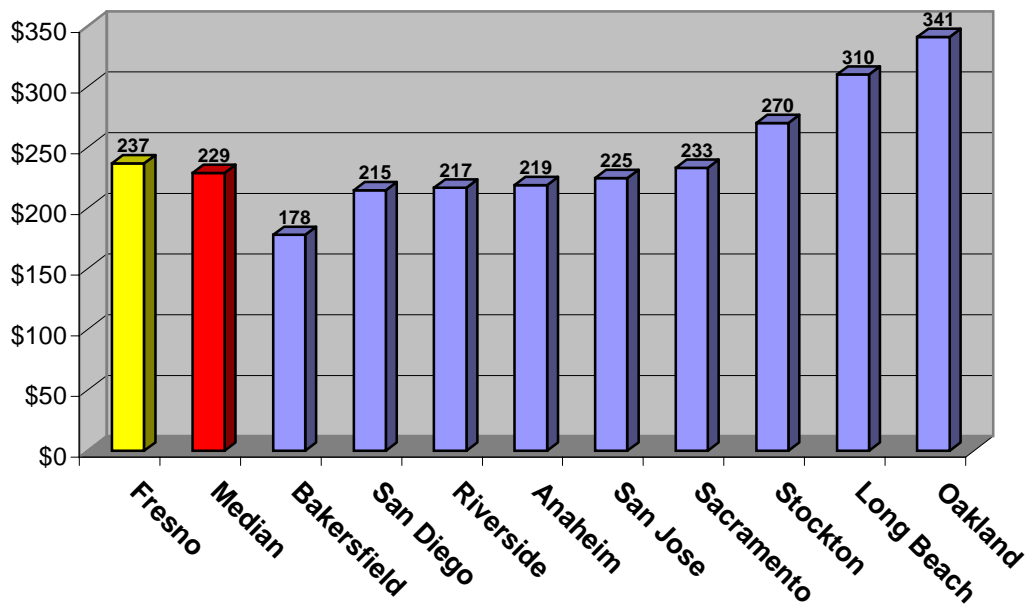
## MEETING THE CHALLENGE

**General Fund Expenditures  
Graph No. 3**



(\*The City of Fresno defines the City Clerk's responsibilities more narrowly than most of the peer cities.)

**Police Expenditures per Capita (FY03 Budgets)  
Graph No. 4**

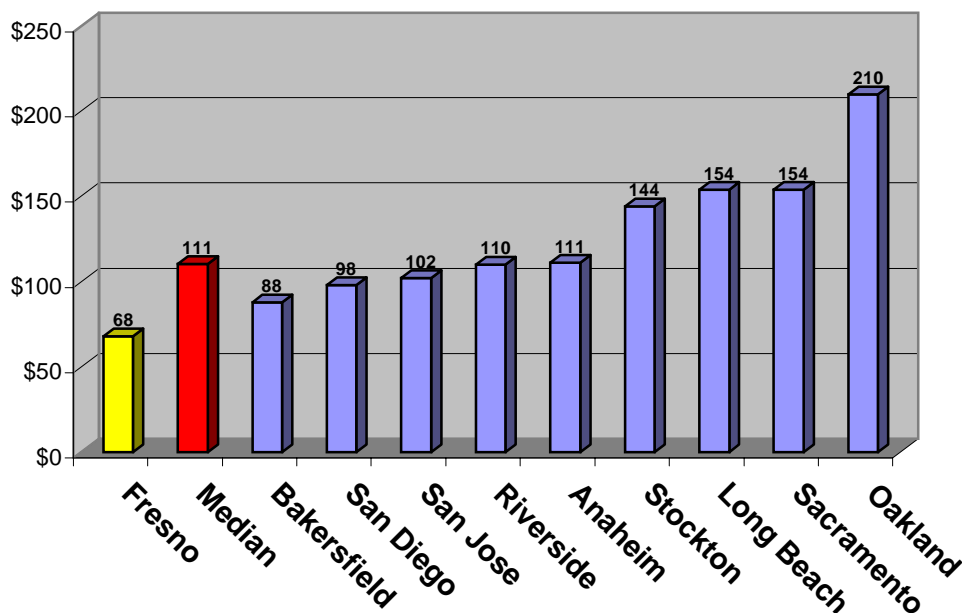


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The fact that **Police Department expenditures** are above the median of the benchmark cities (see Graph No. 4) is notable in part because this is a relatively recent occurrence. Despite Fresno's high crime rate (second highest in the Benchmark group), it is only in recent years that Fresno has made a significant commitment to putting more cops on the street. It is notable, also, because the Fresno Police Department now consumes a higher **percentage** (53.4%) **of the City's General Fund** than that of any of the other benchmark cities.

Fresno's city government has recently recognized the degree to which its Fire Department has been under-funded (see Graph No. 5). In FY 2003, the Fresno Fire Department received a higher budget increase over the prior year than any other department. The result of these increases in Police and Fire Department expenditures is that Public Safety now consumes 70% of the City's General Fund (see Graph No. 6), 25% more than the peer median. Recent Fresno trends in expenditures for **Public Safety** relative to **revenue trends**, if unmanaged, would cause the entire General Fund to be consumed by Public safety expenditures by the year 2008 (see Graph No. 7).

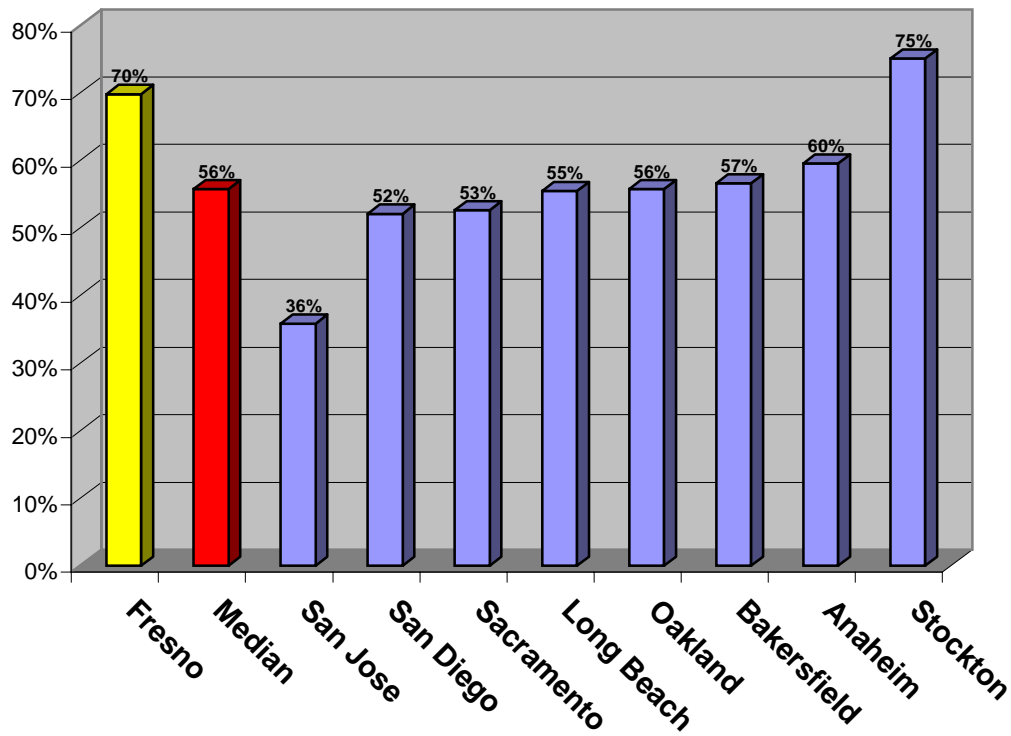
Fire Expenditures per Capita (FY03 Budgets)  
Graph No. 5



## MEETING THE CHALLENGE

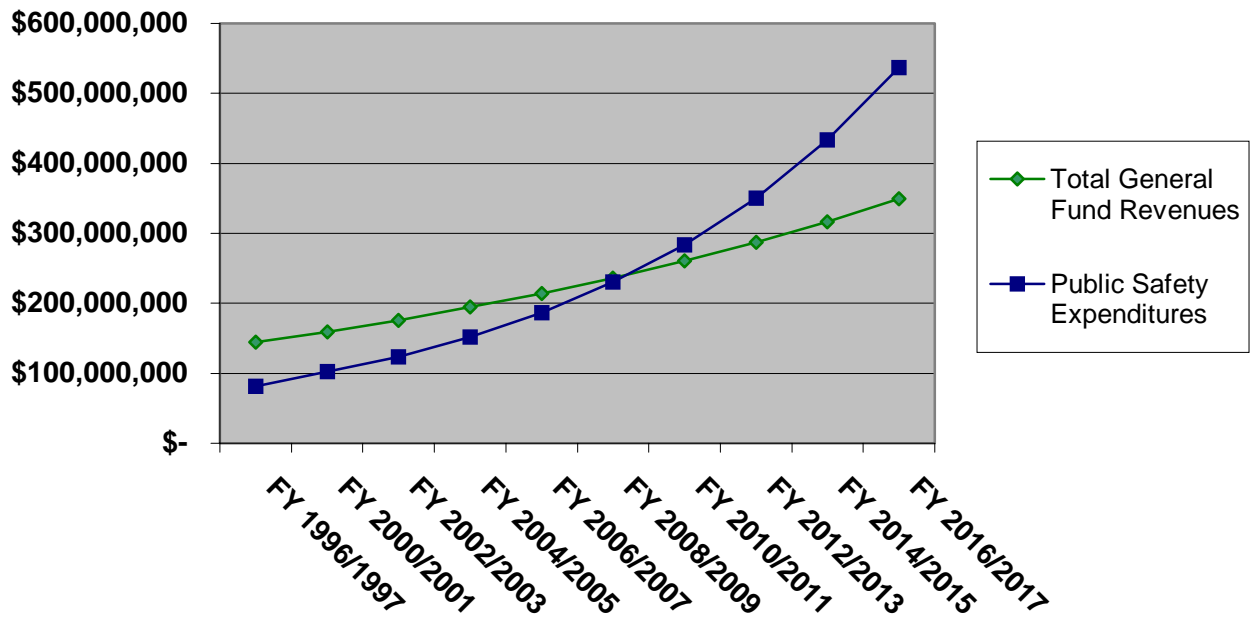
### Police & Fire Expenditures as Percent of General Fund (FY03 Budgets)

Graph No. 6



### General Fund Revenue & Expenditure Projections

Graph No. 7



**4. Despite Fresno's lower expenditure levels, some additional operating efficiencies are attainable, particularly if best practices are adopted.**

The Task Force expected to find more inefficiencies in City departments than it encountered. In fact, the statistical analysis does not support the stereotypical image of a bloated city bureaucracy, nor does the personal experience of the members of the Task Force. In the process of this analysis, the Task Force members had an opportunity to work with a wide cross-section of City employees, ranging from assistant city managers to administrative support personnel. Without exception, the Task Force found these employees to be competent and dedicated, willing to devote extraordinary time and effort in the performance of their jobs.

Nonetheless, the Task Force believes there is an opportunity to reduce General Fund expenses by 2% to 2-1/2% through across-the-board expense cuts, without adversely affecting essential services. This will not be easy. Cuts of this magnitude are commonplace in the private sector, where managers can make decisions to cut product lines and services with marginal profitability. For the most part, City governments do not have this discretion. They cannot decide not to offer police services in sections of the City because their crime is too high, or to discontinue trash pick-up in certain areas because they are too far from the dump. When these essential service areas are taken off the table for expense reductions, the economic space available for making spending cuts is generally ten to twenty percent of the departments' budgets, sometimes even less, so a 2% to 2-1/2% cut turns out to be ten to twenty-five percent of the departments discretionary budget.

As difficult and painful as it may be, circumstances demand that these cuts be made. The level of the proposed cuts is based in part on a review of budgets, recent spending trends, and the Contingency Plans developed by the City departments. It is also based on the experience of the Task Force members. Any organization that has not been pressed to make painful efficiency improvements in recent years has an opportunity to cut expenses by 2% to 3% through more diligent management of discretionary expenses, negotiation with vendors, etc., without impairing service.

Across the board expense cuts are attainable not only in those departments that reside within the General Fund, but also in the Internal Service Funds and the Enterprise Funds. Although the latter are self-standing operations, efficiencies in those organizations help minimize rate increases (e.g., public utilities) and/or make available funds to promote increased use of facilities (e.g., the Fresno Airport and the Convention Center).

The Task Force believes there are significant additional opportunities for efficiency improvements through adoption of *Best Practices*, and feels that all such practices should be adopted that result in service enhancement or cost reduction for the benefit of Fresno's citizens. This includes increased use of volunteers, outsourcing, managed competition, regional joint power authorities and many others described in this report.



5. A \$7.5-8.5 million (annualized) Contingency Plan can be implemented without affecting negotiated salaries or impairing essential services. Beyond that, other steps will be required.

The Task Force believes that resolution of the State-level budget crisis may result in a reduction of motor vehicle license fees for cities. Fresno's General Fund currently receives approximately \$17 million from these fees. If 50% of these fees are taken by the State, the Task Force believes that a combination of across-the-board cuts and some new revenues will be enough to offset the impact.

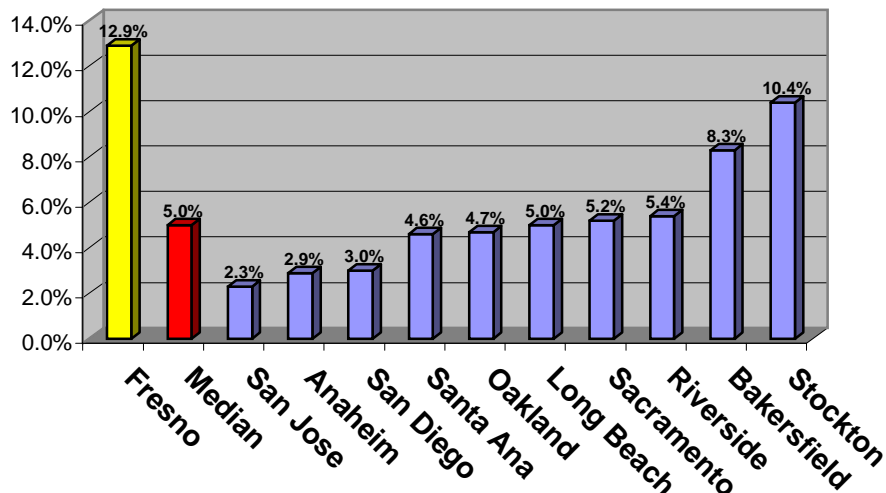
A net expense reduction of 2% to 2-1/2% will generate \$3.5 to \$4.0 million in expense reductions for the General Fund. Additional expense cuts through adoption of best practices cannot be counted on in the near term because these best practices take time to implement. The City has identified \$4.0 to \$5.0 million that can be generated through fee revenues that are commonly collected in the benchmark cities, out of a Universe of more than \$14.0 million of current services eligible for additional fees. (See the "Maximus Study", 12/3/02).

If the impact from State Government and a continued weak economy impact the City by more than \$8.5 million, more severe actions will be required, as discussed in the recommendations section.

6. Fresno has the most severe structural unemployment among its peers – and spends less on economic development than virtually all its peers.

Fresno's **unemployment rate** has stubbornly remained in the 12-13% range for the last several years, more than twice the 5% median of the benchmark cities (see Graph No. 8). The problem is structural. The high level of "unemployables" in Fresno – people without the minimal requisite education and workforce skills – dissuades potential employers from coming to Fresno. Lack of employment opportunities result in a **high crime rate** that further dissuades potential employers and requires a disproportionate and increasing percentage of the City's General Fund to go to police services.

Percent Unemployment (2000 Census)  
Graph No. 8

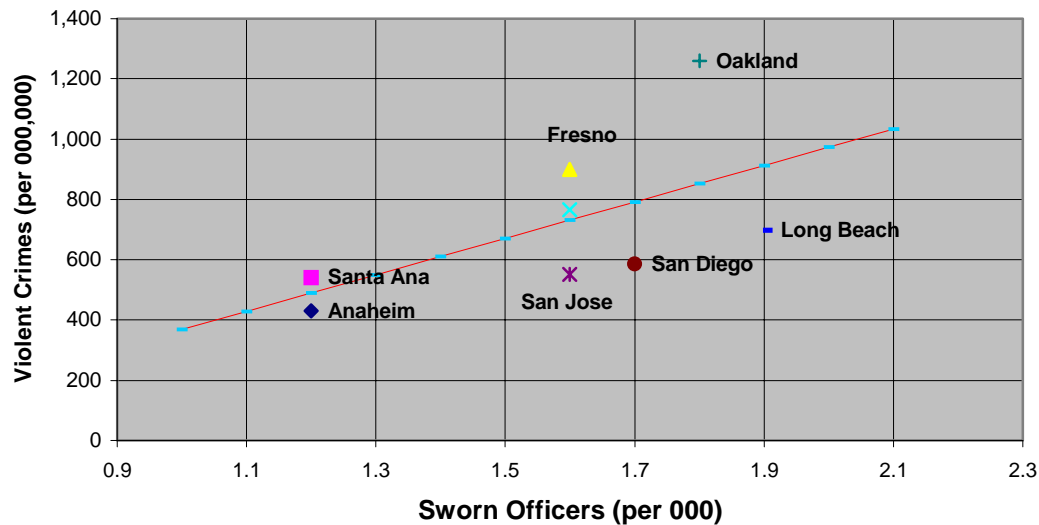


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The problem is graphically illustrated in graphs No. 9 and No. 10. Graph No. 9 correlates violent crime with sworn police officers per 1,000 inhabitants. It is unreasonable, of course, to conclude that the incidence of violent crime increases as the number of police officers is increased. It is the reverse that is true. The more violent crime a City has, the more police officers it needs. Graph No. 10 correlates violent crime to the unemployment rate, showing that the incidence of violent crime is proportional to the unemployment rate. As important as it is to hire more police officers when a City finds itself in a high crime situation, this is a solution that addresses the symptom and not the underlying cause of the high crime.

If this downward spiral is to be broken, the City must make a concerted effort to invest in education and training, build infrastructure that will attract employers to the area, and place considerably greater emphasis on public-private partnerships. By all reports, Fresno spends less per capita on economic development than all of its peer cities, even when Redevelopment Agency efforts are included. Using 1999 data, Fresno spent 32% less than the median of its peers, and only about one-fourth as much as cities known for their aggressive ***economic development*** programs (see Graph No. 11). This level of expenditure would appear inadequate to reverse the persistent unemployment rate in Fresno.

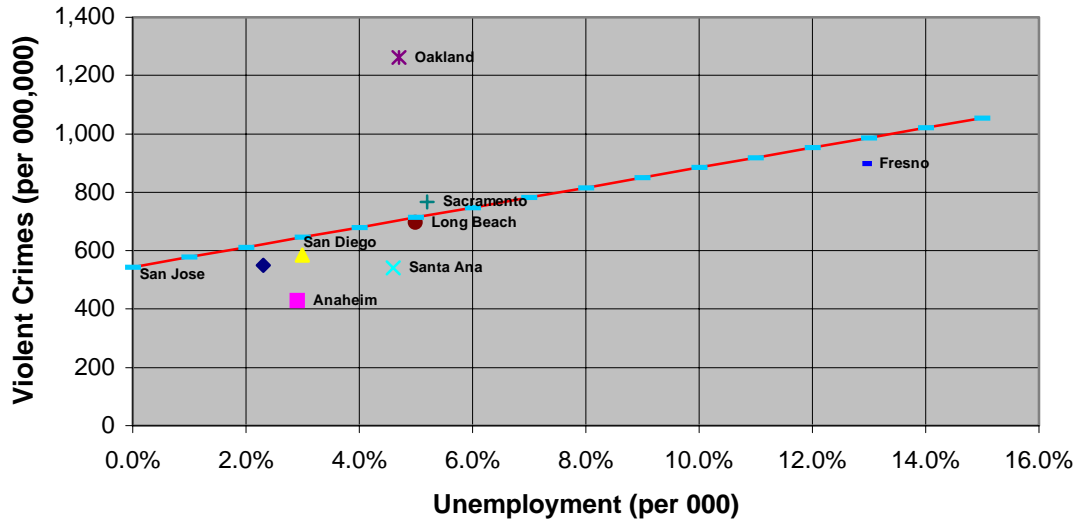
Police Department Comparisons  
Graph No. 9



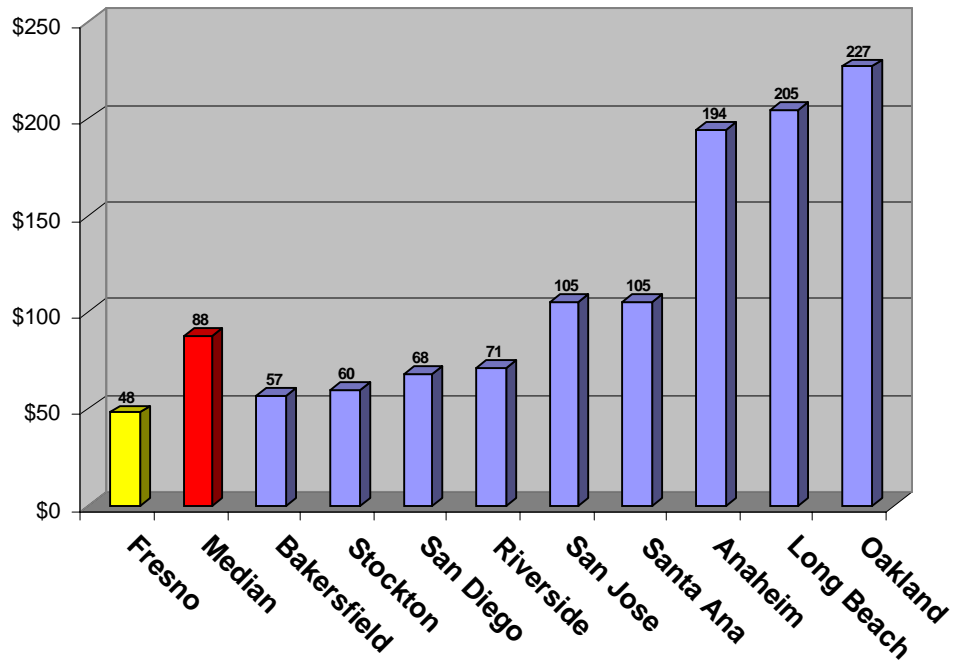
Source: U.S. Department of Justice 2000 Report

## MEETING THE CHALLENGE

**Police Department Comparisons  
Graph No. 10**



**Economic Development \$ per Capita (1999 State Report)  
Graph No. 11**



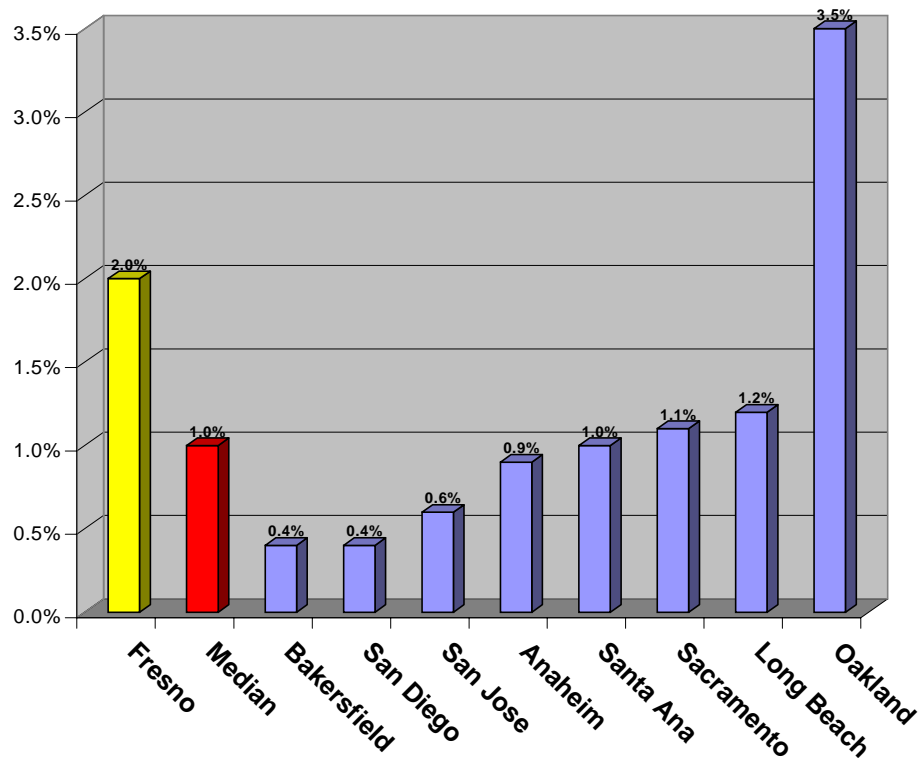
**7. Fresno has deferred maintenance issues and significant pockets of under investment.**

The Task Force has identified a number of functional areas that require significant investment. A few examples follow. Fresno's Fire Stations are in poor condition and Fresno's fleet of fire trucks needs updating. Failure to address these and other issues in the Fire Department could result in higher future insurance rates for the citizens of Fresno. The City spends 47% less per street mile on repairs than the benchmark median, suggesting very high efficiency and/or deferred maintenance (a more detailed review shows it is some of both). Fresno also lags in moving its information systems towards eBusiness, which will inevitably require significant expenditures.

**8. Fresno has less Debt Capacity than its Peers.**

The City of Fresno is more indebted than its peers. This is largely a result of the City having had to use debt to finance historical pension obligations that were unfunded in the periods when they were incurred. Prior to the successful recent re-financing of Fresno's Pension Obligation Bond, Fresno's net direct debt per capita was 40% higher than the median of its peers and its debt as a percent of assessed valuation was twice the level of its peers. Even after the recent re-financing, Fresno's net direct debt remains higher than its peers. Although Fresno's credit rating is not at risk, past usage of debt now requires that debt should be used sparingly to finance Fresno's future needs. See Graph No. 12.

**FY01 Debt as Percent of Assessed Valuation (Moody's 2002)**  
**Graph No. 12**



**9. Correction of the issues identified in paragraphs (6) and (7) above will require freeing up operating revenues through best practices and generation of new revenues.**

Recent initiatives by the Mayor and City Council to revitalize the downtown area, obtain empowerment zone designation and focus attention on education, training and workforce development, to name a few, are all on the right track, but they are insufficiently funded to break the negative spiral described above. Because Fresno has to spend so much of its General Fund on police services, it does not have adequate funding to attack the conditions that are the primary source of the City's high crime rate.

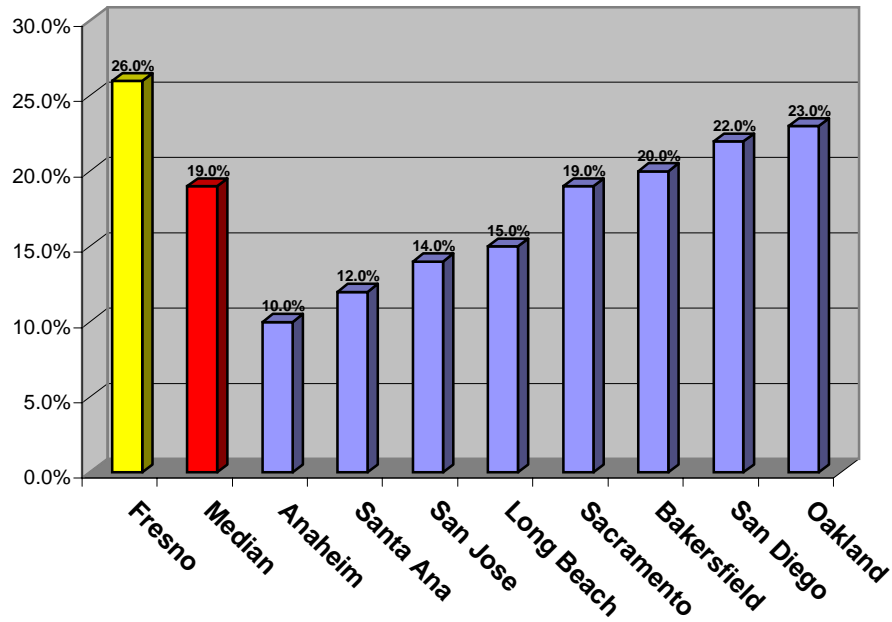
Ideally, the best way for Fresno to generate the revenues needed to address its needs is to join with other local governments to persuade the State government to share more revenues with local governments. An increase of the share of the State sales tax going to local government from 1% to 1-1/2% would result in a \$27.5 million increase in Fresno's General Fund (16%). However, given the State fiscal deficits being projected for the next several years, the Task Force is not optimistic that this outcome is possible, so alternative ways need to be found to generate the revenues needed by the City.

As discussed above, some near-term efficiency spending cuts can be made, but the proceeds will likely be used to offset revenue reductions from the State. Additional opportunities to free up revenues are available through implementation of *Best Practices* identified in this report. While some of these *Best Practices* may take time to properly evaluate and implement, aggressive pursuit of them is indispensable to Fresno's future. *Best practices* alone, however, will not release all the required funding. In the absence of a major and unlikely change in State/City revenue sharing practices, it will be necessary for Fresno to find new sources of revenue.

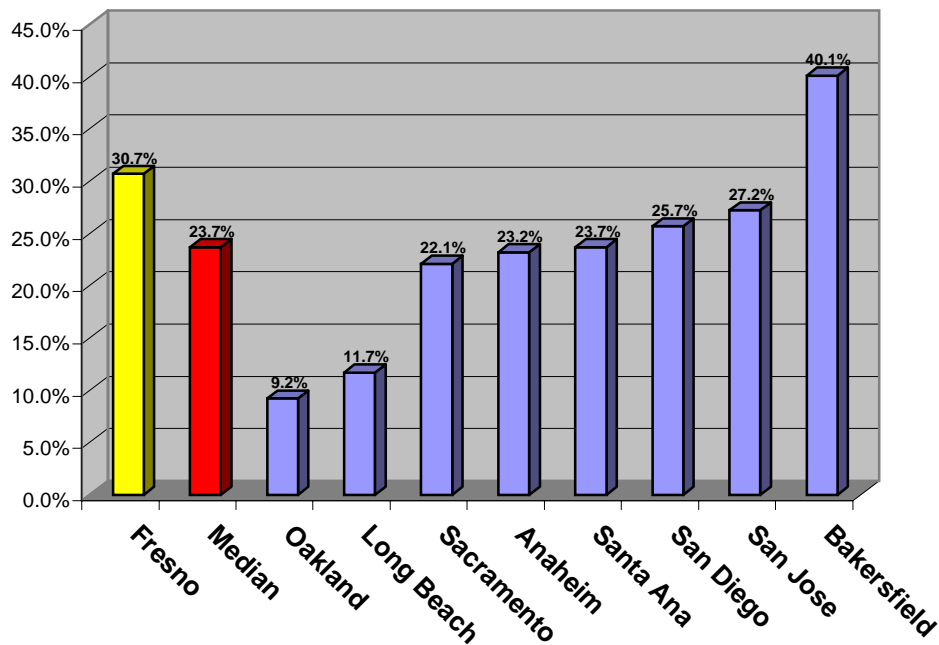
**10. Fresno has a less diversified revenue base than its peers.**

Fresno's General Fund is primarily dependent on three revenue sources, as illustrated in graphs No. 13, No. 14, and No. 15. The City relies more on **property taxes** than any of its peer cities; it relies more on **sales taxes** than any of its peer cities, except for Bakersfield; and it relies more on **business taxes** than any of its peer cities, except for Oakland. Fresno collects less revenue from fees, licenses and permits than any of its peers. (See Graph No. 16.) Also, Fresno does not collect a utility tax, as do more than 150 California cities, collectively representing a majority of the state's population. For those cities that collect them, utility taxes provide an average of 15 percent of general revenues, and often as much as 22 percent. Fresno also does not collect revenues through assessment districts, a practice used in most of the peer cities.

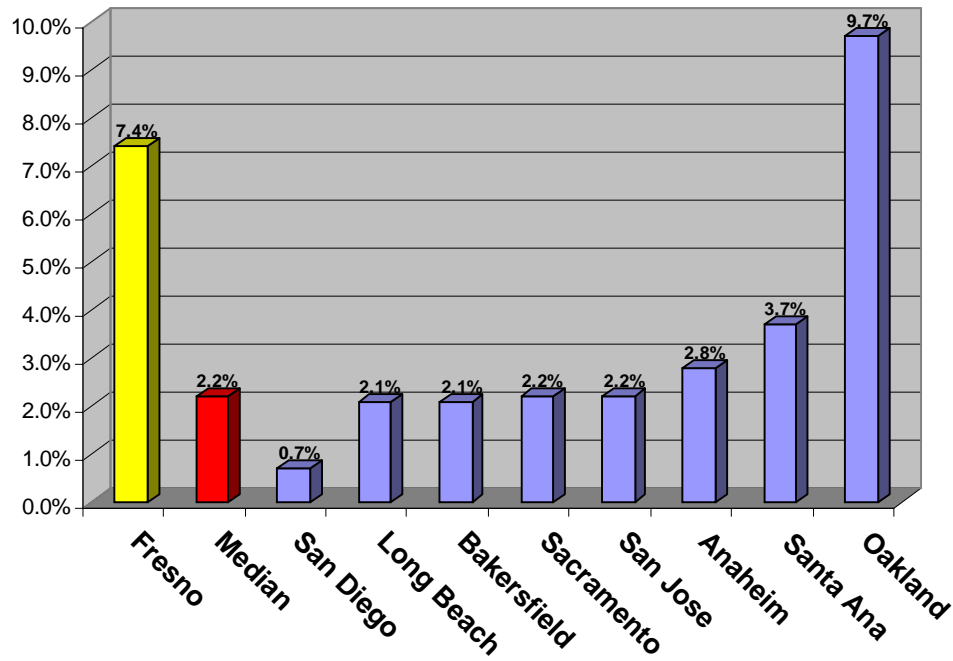
**% of General Fund Revenue from Property Tax (City of San Diego Study)  
Graph No. 13**



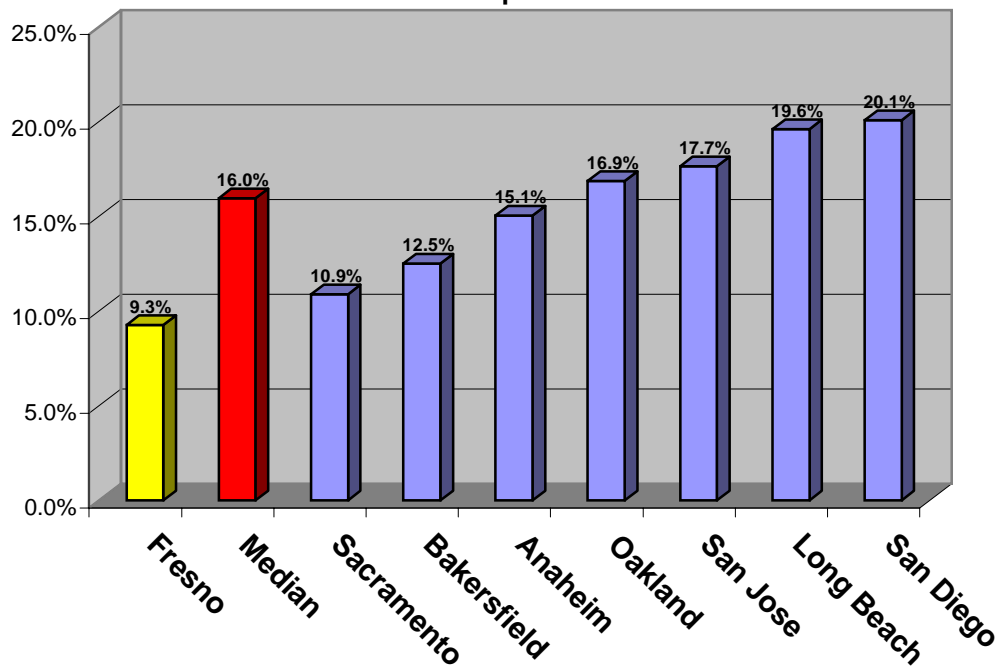
**% of General Fund Revenue from Sales Tax (City of San Diego Study)  
Graph No. 14**



**% of General Fund Revenue from Business Tax (City of San Diego Study)  
Graph No. 15**



**% of General Fund Revenue from Fees, Licenses, Permits (FY01 CAFRs)  
Graph No. 16**



## **RECOMMENDATIONS**

The *Recommendations* section of this report contains twenty-three recommendations. They are grouped into three major categories: **Contingency Plan** (what the Task Force often refers to as *Survival*), **Operating Efficiencies**, and **Investment**. All three categories contain recommendations that are vital to the future of Fresno. The following recommendations are the ones that the Task Force considers most important:

### **Contingency Plan**

It is impossible to predict with certainty the extent to which the City of Fresno will be financially impacted by circumstances outside its control. Negotiations regarding the solution to the State's deficit are likely to continue at least until mid-year, 2003. At the federal level, the possibility of having to finance a war in IRAQ contributes a significant element of uncertainty. Nevertheless, Fresno must anticipate and be prepared to survive and move forward in whatever economic environment takes shape. The Task Force recommends that the City approach this uncertainty with contingency plans at three levels, as described below.

*Readers of this report should take note that contingency plans, by definition, involve actions that must be taken on short notice. These plans do not contemplate generation of savings from Best Practices, which may take considerable time to implement, nor generation of new revenues that might require voter approval.*

#### **Level 1 Plan: \$7.5-\$8.5 Million plan**

This plan assumes that the financial impact to the City from State budget-balancing actions and a continued weak economy, does not exceed \$8.5 million (5% of the General Fund). Plan implementation is predicated on the City taking two actions, neither of which would impact services or affect currently negotiated salaries:

- 1. Implement the Fee Revenue actions recommended in the Maximus Study.**

The proposed fees, which are commonly collected in the benchmark cities (see Graph No.16), will raise \$4 to \$5 million (annualized) in incremental fees for Fresno and help diversify the City's revenue base. Even after these additional fees, Fresno's fee revenue will remain well below the peer median.

- 2. Implement a 2-1/2% across-the-board expense cut for all General Fund departments and Internal Service Funds, without impacting essential services.**

An across-the-board reduction of 2-1/2 % will provide an additional \$3.5 to \$4.0 million to the General Fund. This can and should be done without adverse impact to essential services.



**Level 2 Plan: \$8.5-\$20 Million Plan**

This plan assumes a financial impact to the City in the range of \$8.5 to \$20 million (5% to 12% of the General Fund). Implementation of this plan is predicated on freezing salaries and re-negotiating existing salary contracts in order to protect essential services and jobs.

**Level 3 Plan: More than \$20 Million**

This plan assumes a worst-case scenario, with an economic impact to the City of more than \$20 million. The City would first use at least a portion of its \$10 million reserve to protect essential services and jobs. In the absolute worst case, some curtailment of essential services may be required.

**Operating Efficiencies**

The Task Force believes that the following recommendations on operating efficiencies should be implemented for the following three reasons: (a) City government has an obligation to its citizens to make government as efficient as possible; (b) even if a contingency plan is not required, the fragile U.S. and California economies may result in lower than anticipated City revenues; and (c) every effort must be made to free up revenues to address the City's economic development needs as well as the pockets of under-investment referred to above.

**3. Implement a 2-1/2% across-the-board expense reduction even if implementation of a contingency plan is not required.**

A 2-1/2% across-the board expense reduction in the General Fund and Internal Service Funds will generate \$3.5 to \$4.0 million in General Revenue Funds. In the highly unlikely event that these expense reductions are not used to offset reduced revenues, the savings can be used to invest in City priorities, as described below. These expense reductions must be implemented across all departments, including the Police and Fire Departments, which together represent 70% of the General Fund, and it must be done without adverse impact to essential services. It is recommended that these expense reductions be implemented as of February 1, 2003.

The Task Force recommends that the proposed 2-1/2% across-the-board expense reduction also be applied to the Enterprise Funds. Although these are self-sustaining Funds, efficiencies are important because they free up revenues that can be used to promote increased usage of City facilities and/or prevent the need to raise rates for City services.

While this recommendation may appear to be at odds with the finding that some departments are underfunded, it is important that belt-tightening occur in all departments before consideration is given to future investment requirements.

**4. Cap all Department Expense Budgets for FY 2004 at the same level as the amounts budgeted for FY 2003.**

## **MEETING THE CHALLENGE**

This recommendation will ensure that the cost savings achieved through recommendation # 3 carry over into FY 2004. Deviations from this policy should require the approval of the Mayor and the City Manager, and subsequently be affirmed by the City Council

- 5. In addition to the expense reductions under Recommendation # 3, evaluate cost-saving opportunities identified in the Department Contingency Plans that involve eliminating or changing the means of delivery of certain services.**

Some Departments and Funds did an excellent job of identifying “out-of-the-box” ideas for cost reduction. Most of these ideas involved changing the means of delivery of services rather than eliminating the service. For example, the Transit Department (FAX) believes that privatization of the FAX fixed-route and Handy-Ride service could save the City \$1.2 million in salaries and provide better service to customers (a regional Joint Powers Transit Authority may generate even larger savings, while generating significantly lower pollution). The City Parks and Recreation Department believes that over \$200,000 could be saved if Parks and Recreation employees were to perform the work currently contracted to a third party. Another example is the Police Department, which suggested a \$600,000 savings from elimination of the Mounted Police unit, which serves more of a public relations than a public safety function (an alternative might be to make the Mounted Police unit a volunteer organization).

- 6. Establish a standing “Best Practices Task Force” charged with exploring and monitoring implementation of all Best Practices that offer service enhancements or cost reduction opportunities for the benefit of Fresno’s citizens.**

This report identifies several “Best Practices” opportunities that offer the potential for millions of dollars in savings for Fresno, and improvement of service quality. The Task Force recommends that all such opportunities, and any others that may be identified, be aggressively explored, and implemented if analysis shows that they will result in benefit to the Citizens of Fresno. To implement this process, the Task Force recommends appointment of a standing “Best Practices Task Force”, whose role would be to create a “best practices culture” within city government. They would be charged with promoting the adoption of best practices in all aspects of City government and encouraging City Departments to implement and seek recognition from the U.S. Conference of Mayors for their best practices. The Best Practices Task Force should meet regularly with the Mayor and City Manager to report progress, and to renew its mandate. It should also meet regularly with the City Council’s Fiscal Forecasting Task Force to report progress and solicit their views.

### **Investment Plan**

The Task Force believes that a multi-year investment plan must be developed to address the City’s structural unemployment, to revitalize the City’s downtown area, to restore certain City facilities and equipment to appropriate standards, and to invest in productivity-related technology.

**7. The Mayor should lead the development of a comprehensive metropolitan strategy to create 25,000 - 30,000 net new jobs in five years.**

The need to reduce Fresno's unemployment has major social and economic implications. The social implications require no elaboration. Economically, the implication of success is the creation of a larger tax base that will enable the City to continue to service the needs of its citizens, while the implication of failure is the requirement for more and more police services and the squeezing of all other General Fund services delivered by the City. Although City government and several other stakeholders in the community are pursuing initiatives to help address this issue, it is the perception of the Task Force that the overall effort is fragmented, disjointed and under scale. A more effective approach is required. Successful economic development efforts in cities such as Austin, Texas, Cleveland, Ohio, and San Diego, California, have been characterized by (a) **bold objectives**; (b) **well defined strategic focus**; and, (c) **wide-ranging metropolitan cooperation**. For Fresno County to reduce its unemployment to the median level of its peers will require the creation of at least 25,000 net new jobs in the next five years, in contrast to the current situation where we have lost net jobs over the prior year in spite of economic development efforts.

To provide the sense of urgency that is required, the Task Force proposes that a Metropolitan **Jobs Task Force** be established to develop a comprehensive Jobs Strategy, and that a **Jobs Summit** be scheduled approximately six months from the issuance of this report. A draft strategy would be unveiled at the Summit and fine-tuned during the course of the Summit. All institutions and key leaders who have economic development, job creation and/or job training responsibilities would be invited to participate. The success of the proposed summit will be dependent on **marshalling all stakeholders behind a single plan** and the assignment of **clear responsibility and accountability for achievement of the plan** following the conclusion of the summit.

**8. The Mayor and City Council should seek consensus on a multi-year plan for allocation of the City's resources.**

Currently and historically, allocation of the City's resources has taken place as part of the annual budget process. This approach tends to cause City Government to focus on the short-term. While both the Mayor and City Council have long-term objectives for the City, these objectives all too often fall victim to the political pragmatics of getting the annual budget passed. While the symptoms of a city's problems can be treated through annual appropriations, treatment of the underlying problems generally requires a longer-term commitment. The current approach has resulted in an ever-increasing use of the General Fund for public safety expenditures, while treatment of the underlying unemployment problem has suffered from lack of resources.

**9. Any new revenues required to implement the City's investment plan should be from sources that help diversify the City's revenue Base.**

It is unlikely that the cost efficiencies proposed in this report will free up sufficient new capital to enable the city to launch an adequately funded investment plan. Debt should be used sparingly in a City that already carries twice as much debt per capita

## **MEETING THE CHALLENGE**

as its peers. New sources of revenue are, therefore, likely to be required. Fresno could generate an additional \$120 per capita in revenues – more than \$50 million Citywide – and still be below the median of its peers. Even if one were to normalize for Fresno's lower per capita income, the City could raise \$50 per capita – \$20 million citywide – in new revenues and still be below the median of its peers on an adjusted basis.

The Task Force believes that the best way best way to generate more revenue is through economic growth, but Fresno's opportunities for sound growth are currently constrained by the underlying problems discussed above. Correction of these problems will require some up-front investment. The amount of that investment cannot be determined until a Jobs Strategy has been fully developed and costed and the City's deferred maintenance problems are more fully understood and costed. To the extent that the required investment exceeds the revenues available through the efficiency improvements recommended in this report, which the Task Force believes is likely, new revenues will need to be generated. The Task Force feels any such new revenues should (a) principally be raised by broadening the revenue base via a Utility User Tax, special assessment districts, or some combination of the foregoing; and (b) earmarked for the specifically intended investment objectives.

### **General**

#### **10. The contents of this report should be effectively communicated to the Citizens of Fresno.**

Some of the findings of this report were surprising to the Task Force; among them, the extent to which Fresno's revenues and expenditures fall below those of its California peers and the degree to which public safety expenditures are squeezing the City's ability to provide other services and solve its underlying problems. If a consensus is to be formed in support of the recommendations offered in this report, the Citizens of Fresno must be made fully aware of these findings.

### **Concluding Observations**

The Task Force has made no attempt to sugarcoat the significant challenge confronting our State and our City. We are facing a storm of significant proportions. If we knew this to be a storm of limited duration, we might have the choice of hunkering down to survive it. However, the Task Force believes this is a storm of significant duration, leaving us no better choice than to brave the elements and continue to move forward. The Task Force has made its recommendations with full confidence that Fresno has the leadership and political will not just to survive this storm, but to emerge from it stronger and better positioned for a brighter future.

# Part II

## Expenditure and Revenue Benchmarking

**EXPENDITURE AND REVENUE BENCHMARKING**

**IDENTIFICATION OF PEER GROUP CITIES**

Given the unique nature of California local government financing, especially since the passage of Proposition 13 in 1978, the Task Force thought it important that the cities used for comparison be within the State of California. The Task Force was also concerned that there be enough California cities of comparable size included in the study to enable reasonable conclusions to be drawn without concern about limitations due to sample size.

The Task Force determined that the selection would be principally based upon population size, but other demographics factors would be examined to determine comparability. Los Angeles and San Francisco were excluded due to size and uniqueness (i.e., San Francisco is organized as a City-County governmental unit). The population range is from 243,771 for Stockton to 1,223,400 for San Diego, with Fresno at 427,652.

For purposes of this study, the 2000 U. S. Census was used as the source of population data. Consideration was made to exclude San Diego because of its population size. However, the Task Force decided to keep San Diego within its study group because it is often considered a “best practice” city nationally, as are cities outside California of similar population size.

**KEY STATISTICS FOR THE PEER CITIES**

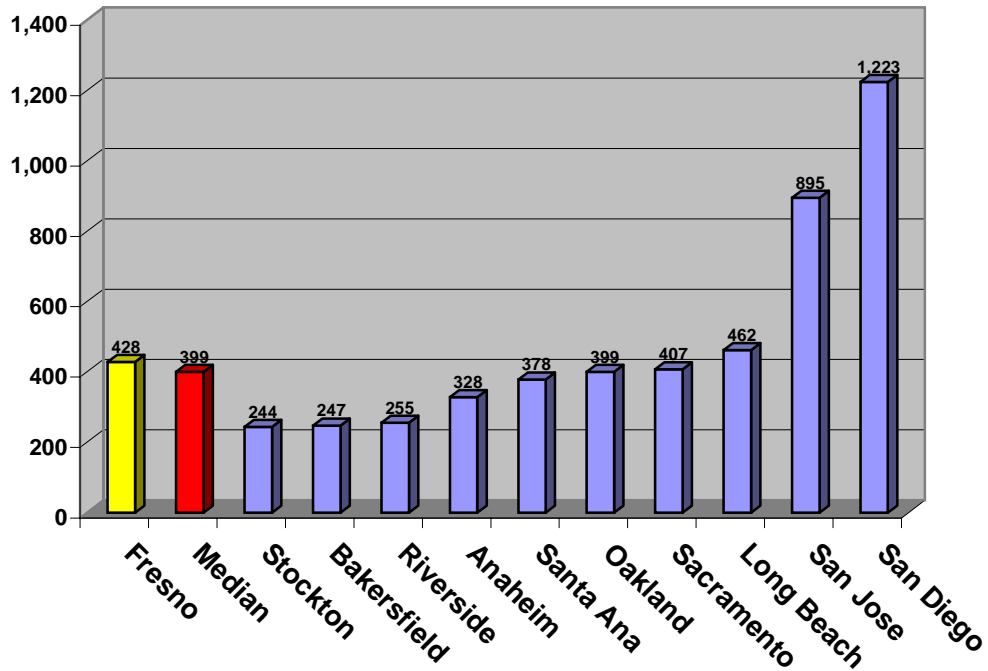
The peer cities are identified below in Chart No. 1, along with key demographic factors.

**Chart No. 1**

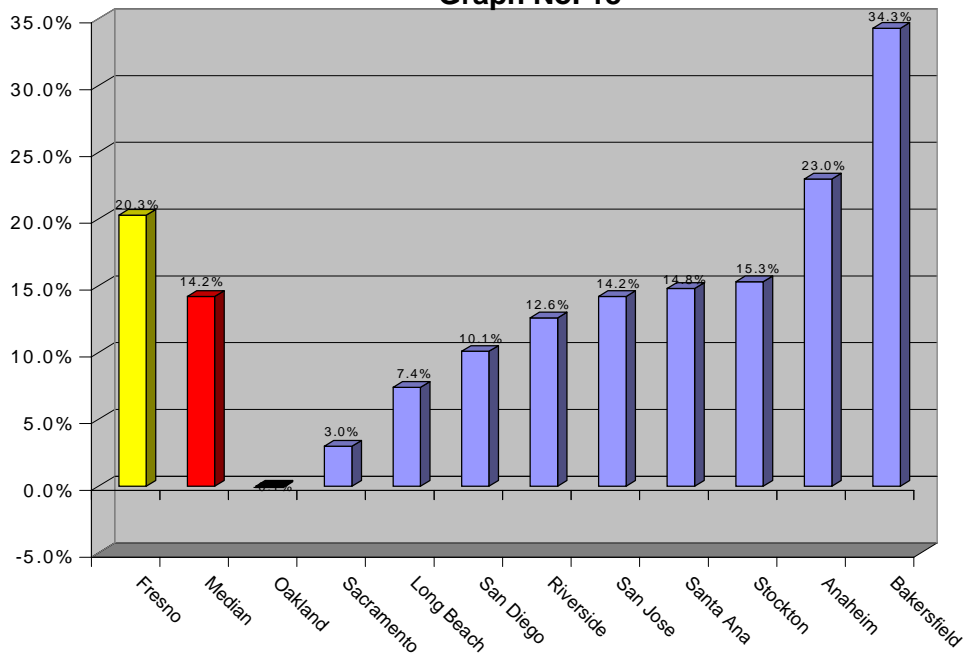
<b>City</b>	<b>Population</b>	<b>% Growth 1990-2000</b>	<b>Sq. Miles Land Area</b>	<b>% Housing Owner Occupied</b>	<b>2000 Med. Household Income</b>	<b>Unemployment</b>	<b>Per Capita Income</b>	<b>Per Capita Taxes</b>
Anaheim	328,014	23.0%	48.9	50.0%	\$49,216	2.9%	\$22,722	\$473
Bakersfield	247,057	34.3%	113.1	60.5%	\$44,405	8.3%	\$19,148	\$295
<b>Fresno</b>	427,652	20.3%	104.4	50.6%	\$46,950	12.9%	\$16,233	\$278
Long Beach	461,522	7.4%	50.4	41.0%	\$40,515	5.0%	\$21,603	\$422
Oakland	399,484	-0.1%	56.1	41.4%	\$27,095	4.7%	\$20,348	\$656
Riverside	255,156	12.6%	78.1	56.6%	\$37,034	5.4%	\$20,549	\$299
Sacramento	407,018	3.0%	97.2	50.1%	\$38,786	5.2%	\$20,476	\$454
San Jose	894,943	14.2%	174.9	61.8%	\$87,000	2.3%	\$23,619	\$499
San Diego	1,223,400	10.1%	324.3	49.5%	\$49,946	3.0%	\$24,443	\$370
Santa Ana	377,977	14.8%	27.1	49.3%	\$54,854	4.6%	\$13,304	\$357
Stockton	243,771	15.3%	54.7	51.6%	\$37,804	10.4%	\$16,096	\$308
<b>Median</b>	399,484	14.2%	78.1	50.1%	\$44,405	5.0%	\$20,476	\$370

The following charts graphically illustrate the previous Table.

**Peer Cities Population in 000's (2000 Census)**  
**Graph No. 17**

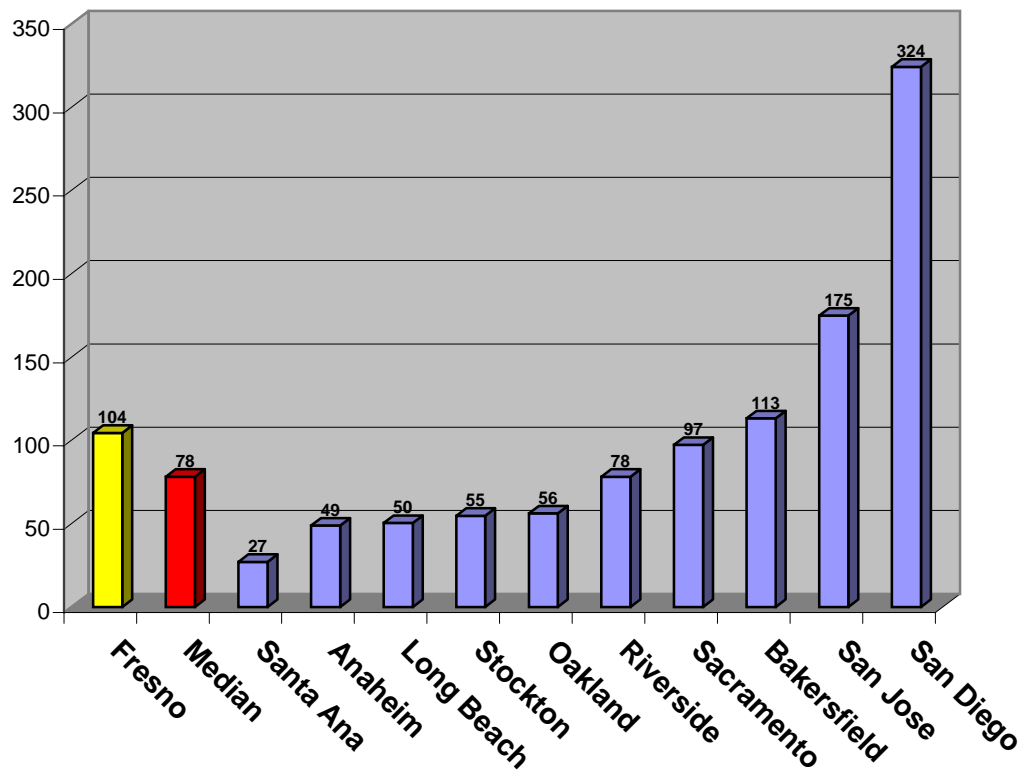


**Population Growth 1990-2000 (2000 Census)**  
**Graph No. 18**

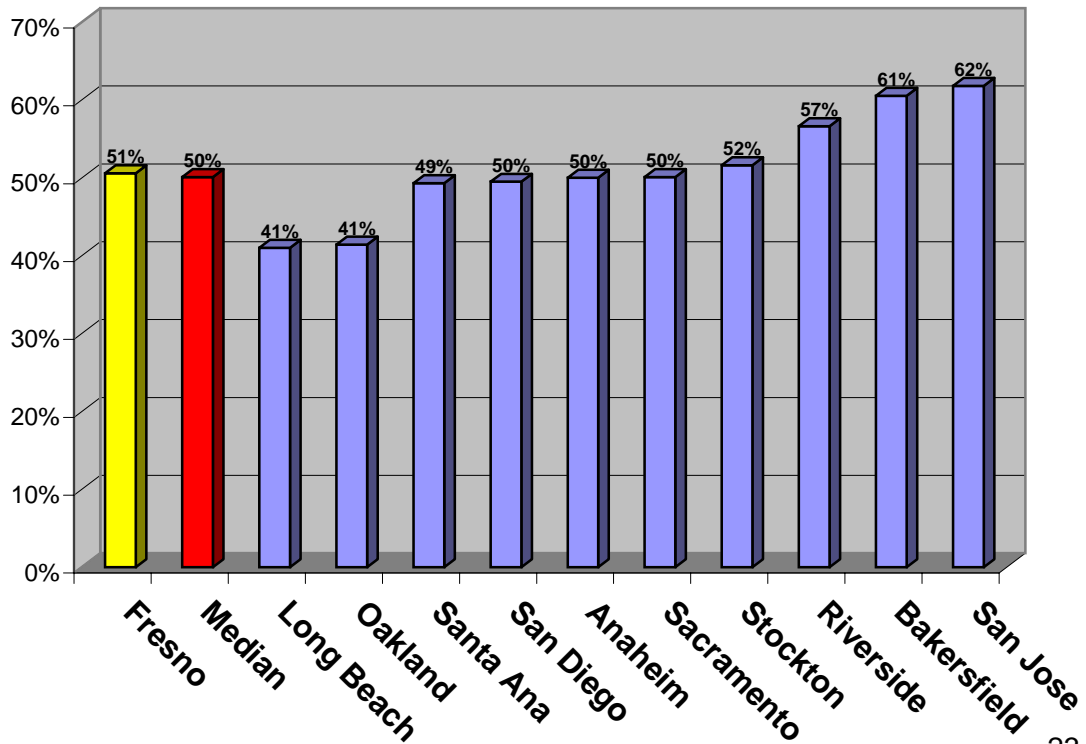


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Peer City Land Area – Square Miles (2000 Census)  
Graph No. 19

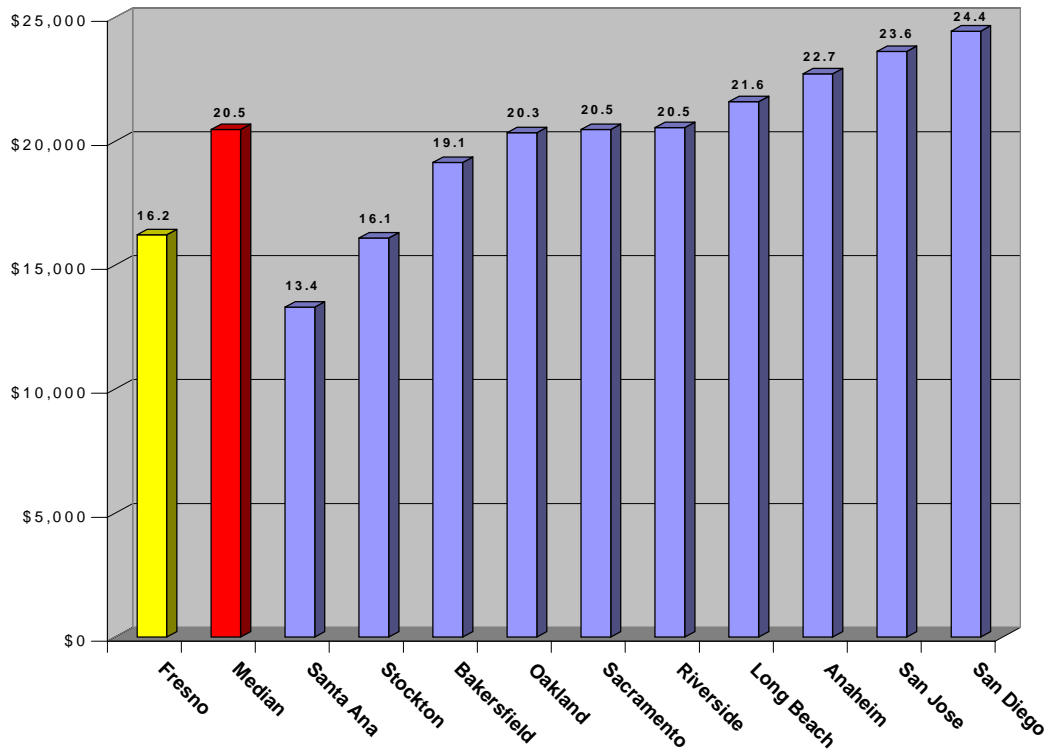


Percent of Owner Occupied Housing (2000 Census)  
Graph No. 20

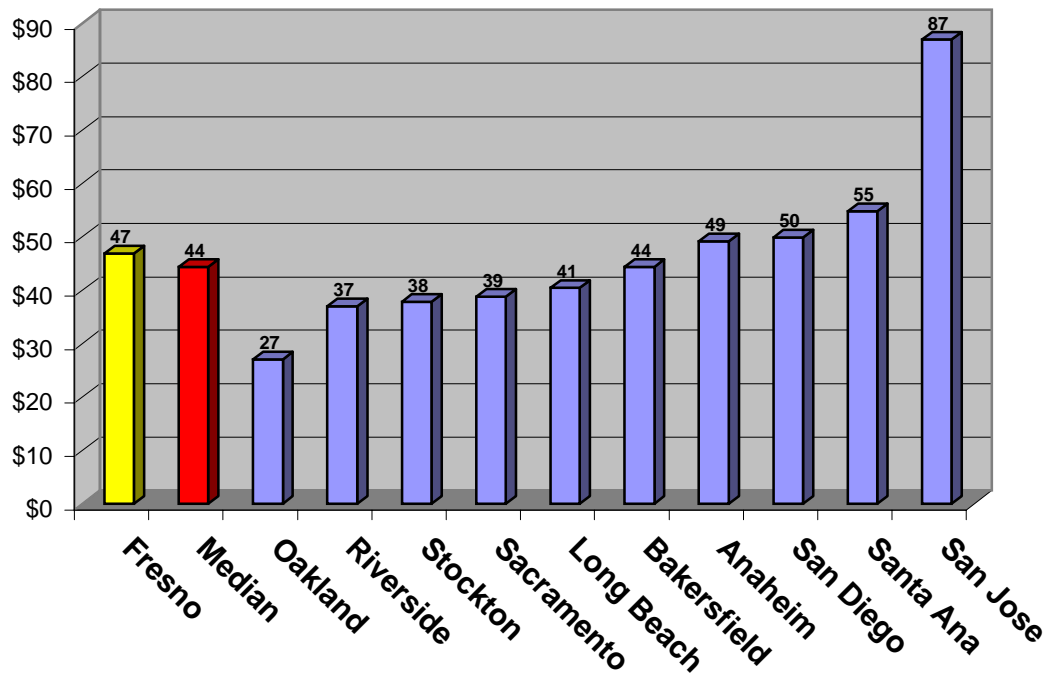




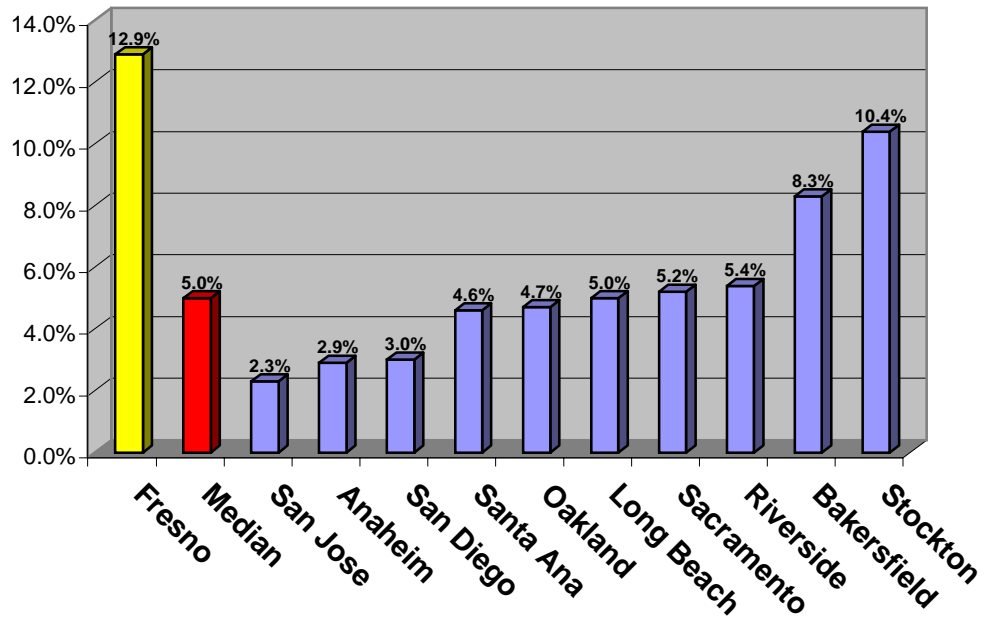
**Per Capita Income in 000's (2000 Census)  
Graph No. 21**



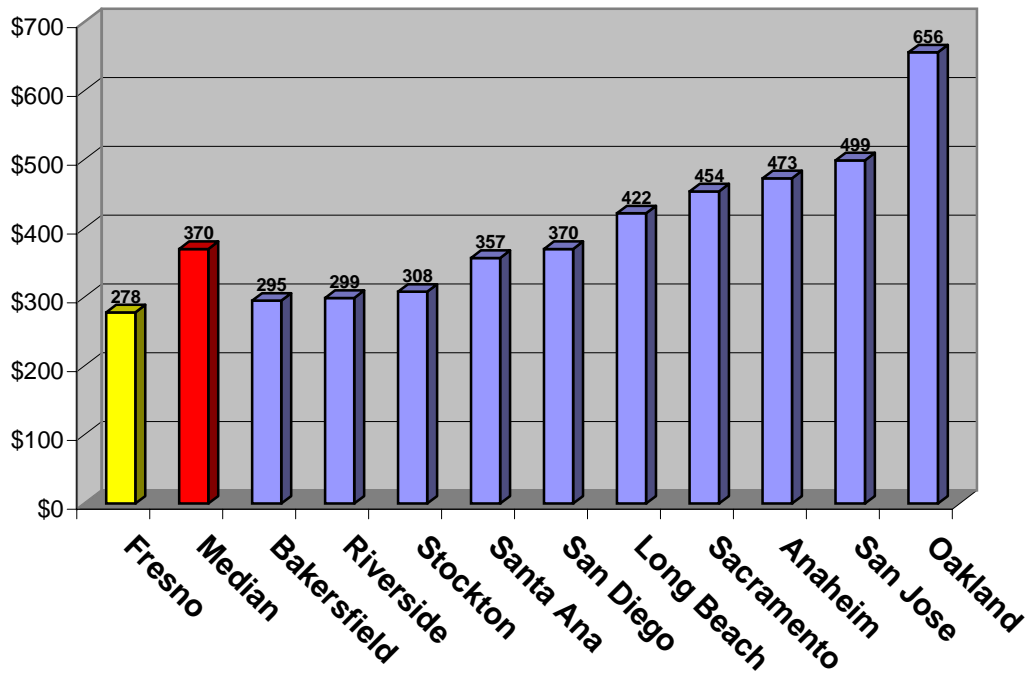
**2000 Median Household Income in 000's (2000 Census)  
Graph No. 22**



**Percent Unemployment (2000 Census)**  
**Graph No. 23**



**2000 Per Capita Taxes (2000 Census)**  
**Graph No. 24**



## **SOURCES OF DATA**

The research and findings of this report are based almost entirely on published data that is readily available, updated annually, and follows a format that is generally consistent for each of the cities within the study. The primary research documents were published budgets for Fiscal Year ("FY") 2003, audited Comprehensive Annual Financial Reports ("CAFRs") for FY 2001, 2000 U.S. Census, and California State Controller Reports dated 1999.

In addition, some City of Fresno Departments provided information to the Task Force for a more detailed review of specific operational areas. In those instances, information was obtained from national organizations, U.S. Census, or other Federal Governmental agencies (such as FBI crime statistics). These supplemental sources were used where the same data was available for each City in a consistent format and method of calculation, and a longer time period was available for better trend analysis.

One of the Task Force's objectives was to obtain the most current data available for purposes of determining whether City operations are efficient, whether they fall within the first quartile of their peer city efficiency measures, and what "best practices" might be identified as appropriate for local implementation.

The Task Force was unable to find consistently comparable performance or efficiency measures for all of the cities. The original thought was that the Task Force would be able to use the International City/County Management Association (ICMA) performance measurement database for purposes of performance and efficiency comparisons. However, the Task Force was required to seek data from additional sources when it learned that many of the larger California cities were not included within the ICMA Performance Measurement database.

Therefore, the Task Force's comparison efforts were more limited to the examination of per capita measurements of expenditures and full-time equivalent (FTE) staff positions, as opposed to a more comprehensive performance and efficiency measurement review. Notwithstanding this limitation, the Task Force was able to make substantial comparisons between California peer cities with the data cited above.

## **OVERVIEW OF GOVERNMENTAL FUND ACCOUNTING & CALIFORNIA MUNICIPAL REVENUES**

It is important that readers of this report have a basic understanding of government fund accounting and the sources of revenue that the City of Fresno uses to fund services today. Municipal revenue comes from a variety of sources, ranging from revenue that is restricted by law to certain uses, to revenue received as payment for services the City provides. Still, other revenue comes from state and federal agencies, where there is little local control. The following are the most common municipal revenues received by California cities.

## **Taxes**

A tax is a charge for public services and facilities that provide general benefits to the population served. There need not be a direct relationship between an individual taxpayer's relative benefit and the tax paid. Cities may impose any tax not otherwise prohibited by state law. However, the state has reserved a number of taxes for its own purposes (e.g., taxes on cigarettes, alcohol and personal income). The difference between a general tax and a special tax is that a general tax revenue may be used for any purpose. A majority of voters must approve a new general tax or increase. Special tax revenues must be used for a specific purpose, and two-thirds of voters must approve a new special tax or its increase. Examples of general use taxes include sales taxes and property taxes. These taxes are not restricted as to their use.

## **Fees, Charges, and Assessments**

As compared to a tax, a fee is a charge imposed on an individual for a service provided to that person. A fee may not exceed the estimated reasonable cost of providing the particular service or facility for which the fee is charged, plus overhead. Cities have the general authority to impose fees. There are specific procedures in state law for fee adoption. Proposition 218 provides special rules for property-related fees used to fund property-related services. Examples include water service, sewer service connection, building permits, recreation classes, and development impact fees.

Assessments are charges levied to pay for public improvements or services within a predetermined district or area, according to the benefit the parcel receives from the service or improvement.

## **Intergovernmental Revenue**

Cities also receive a substantial amount of revenue from other government agencies, principally the state and federal governments. These revenues include general or categorical support monies called "subventions," as well as grants for specific projects, and reimbursements for the costs of some state-mandated programs.

## **Other City Revenues**

Other sources of revenue to cities include rents, concessions, investment earnings, revenue from the sale of property, proceeds from debt financing, revenues from licenses and permits, and fines and penalties. Each of these categories of revenue has legal limitations on what may be charged and collected, as well as how the money may be spent.

## **Fund Accounting**

Many types of city revenues are restricted by law to certain uses. For example, a special tax is levied for a specific program, a subvention is designated by law for specific activities, and fees charged for specific services can fund only those services and related expenses. To comply with these laws and standards, finance departments segregate revenues and expenditures into separate accounts or funds. The three most

## **MEETING THE CHALLENGE**

important types of city funds are special revenue funds, enterprise funds, and the general fund.

1. **Special Revenue Funds** are used to account for activities paid for by taxes or other designated revenue sources that have specific limitations on their use according to law. For example, the state levies gas taxes and subvenes some of these funds to cities and counties. A local government deposits gas tax revenue in a special fund and spends the money for streets and road-related programs, according to the law.
2. **Enterprise Funds** are used to account for self-supporting activities that provide services on a user-charge basis. For example, many cities provide water treatment and distribution services to their residents. Users of these services pay utility fees, which the city deposits in a water enterprise fund. Expenditures for water services are charged to this fund.
3. **The General Fund** is used to account for unrestricted revenues. Revenues received by the City that have no legal or contractual restrictions are placed in the General Fund. Appropriations may be made from the General Fund for any legal City activity. Revenues such as sales tax, property tax, the vehicle license fee subvention from the state, and local taxes, including business license tax, hotel tax and utility user taxes (UUT) are examples of General Fund revenues. These revenues support such activities as City Council, Mayor, City Clerk, City Manager, Police, Fire, Parks and Recreation, and Public Works departments.

### **Major City Revenues**

The following revenues are those which are most frequently relied upon by cities to finance the local services they provide.

1. **Sales and Use Tax.** The sales tax that an individual pays on a purchase is collected by the State Board of Equalization. A use tax is imposed on the purchaser for transactions in which the sales tax is not collected. Sales and use tax revenue received by cities is general purpose revenue and is deposited into a city's general fund.
2. **Property Tax.** The property tax is an ad valorem (value-based) tax imposed on real property and tangible personal property. California Constitution Article XIII A (Prop. 13) limits the property tax to a maximum 1 percent of assessed value, not including voter-approved rates to fund debt. The assessed value of property is capped at the 1975-76 base year rate plus inflation – or 2 percent per year. Property is reassessed to current full value upon a change in ownership. Property tax revenue is collected by counties and allocated according to state law among cities, counties, school districts and special districts. The share of property tax revenue allocated to a city varies, depending on such factors as the service responsibilities of the city, the presence of a redevelopment agency that retains a portion of revenue growth, and historic (1980) tax rates of the city in relation to other local taxing entities.

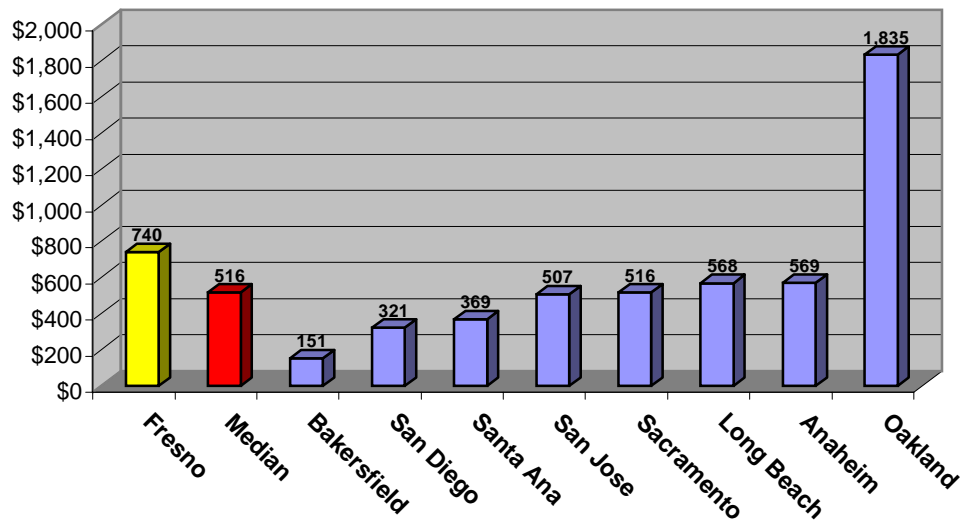
3. **Motor Vehicle License Fee (VLF).** The VLF is a tax on the ownership of a registered vehicle. Since 1948, the VLF tax rate had been 2 percent. In 1998, the California State Legislature and Governor began cutting the tax, offsetting the loss to local governments with a like amount of State general fund money. The effective rate is now 0.65 percent. It is collected by the State Department of Motor Vehicles and allocated to cities and counties according to law (after retaining several hundred million dollars for the administrative costs of state agencies). Most of the allocation to cities is based on population.
4. **Business License Tax (BLT).** Most cities in California levy a business license tax. Tax rates are determined by each city, which collects the taxes. In all cases, cities have adopted their tax as a general tax.
5. **Transient Occupancy Tax (TOT).** Like the business license tax, TOT may be levied by a city. More than 380 cities in California impose a TOT on people staying for no more than 30 days in a hotel, inn, or other lodging facility. Rates range from 4 to 15 percent of the cost of the lodging. In nearly all cases, cities have adopted these as general taxes, but some cities make a point of budgeting the funds for tourism or business-development-related programs.
6. **Utility User Tax (UUT).** More than 150 cities, collectively representing a majority of the state's population, impose a utility user tax. UUT rates vary from 1 to 11 percent and are levied on the users of various utilities (e.g., telephone, electric, gas, water and cable television). For those that impose the UUT, it provides an average of 15 percent of general revenue, and offers as much as 22 percent.
7. **Enterprise Service Charges and Fees.** Service-fee-supported city utilities and enterprises constitute a substantial portion of most city budgets. These include water, sewer, electric, solid waste, harbor/marina and airport services. In some cities, a public or private agency other than the city provides and funds these services.
8. **Benefit Assessments.** Assessments are charges levied to pay for public improvements or services within a predetermined district or area, according to the benefit the parcel receives from the improvement or services. The most common examples include: street lighting; landscaping; public parks and recreation facilities; and, most recently, public safety.

## **Debt**

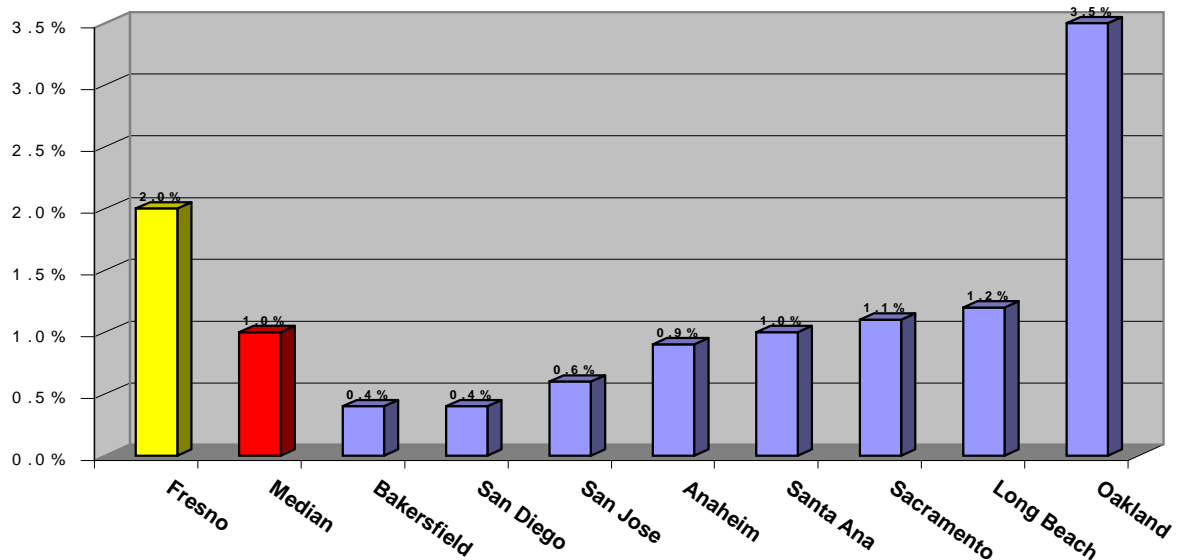
The issuance of debt is another method of providing funds to cover the cost of providing municipal services. In order for a city to incur indebtedness, a two-thirds vote is required to approve a measure, along with a property tax levied to service the debt. Various exceptions to the definition of indebtedness include certain lease agreements, revenue bonds paid from enterprise or other special funds, and obligations imposed by law, such as pension obligation bonds.

The City of Fresno is more indebted than its peer cities. This is largely a result of the City having had to use debt to finance historical pension obligations that were unfunded in the periods when they were incurred. Prior to the successful recent re-financing of Fresno's Pension Obligation Bond, Fresno's net direct debt per capita was 40% higher than the median of its peers, and its debt, as a percent of assessed valuation was twice the level of its peer cities. Even after the recent re-financing, Fresno's net direct debt remains higher than its peers. Although Fresno's credit rating is not at risk, past usage of debt now requires that debt be used sparingly to finance Fresno's future needs.

**Net Direct Debt per Capita (Moody's Medians California Cities)**  
**Graph No. 25**



**FY01 Debt as Percent of Assessed Valuation (Moody's 2002)**  
**Graph No. 26**



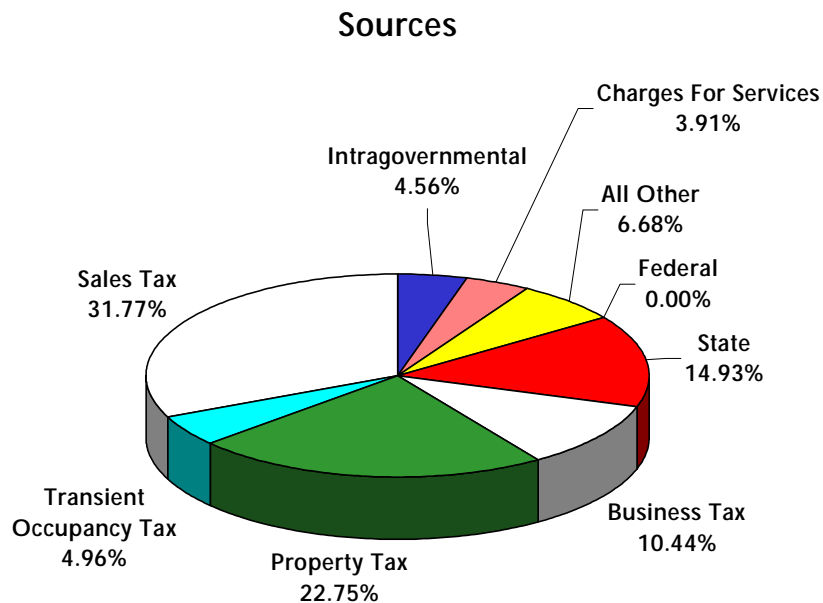
## **FRESNO'S BUDGET COMPOSITION**

### **Fresno General Fund Budget – Sources of Funds**

The following two charts illustrate the General Fund revenue sources (where the revenue comes from) and uses (where it goes, and how it is spent). As referenced above, the General Fund is that unrestricted source of revenue that supports such activities as General Government, Police, Fire, Parks and Public Works. The two major sources of revenue, sales tax and property tax, comprise more than half of the total General Fund revenue base.

The remainder consists of: intergovernmental revenues (e.g., State of California, Fresno County, etc.); local taxes, including business license tax and hotel tax; payments for services from non-General Fund departments; charges for services; business tax; and, miscellaneous revenues.

**GENERAL FUND BUDGET DOLLARS**  
**Graph No. 27**



The FY 2003 major sources of General Fund revenues for the City of Fresno are: sales tax (31.8%); property tax (22.8%); intergovernmental fees, including the vehicle license fee subvention from the state (19.4%); local taxes, including business license tax (10.4%), and the Transient Occupancy Tax "hotel tax" (5.0%); charges for services (3.9%); and all other revenues (6.7%).



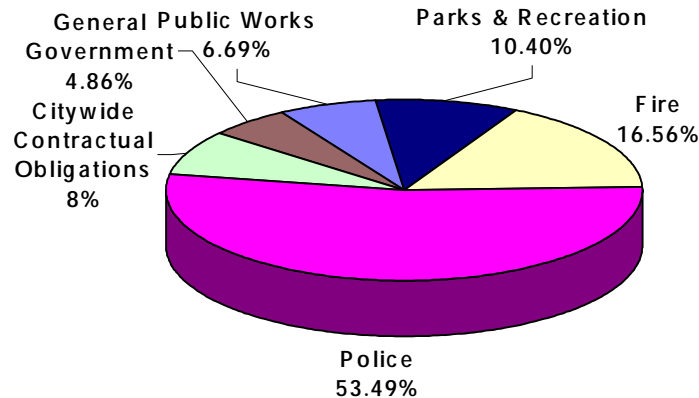
**Fresno General Fund Budget – Uses of Funds**

The major uses of General Fund revenues are public safety related, including Police and Fire. Together, they comprise 70 percent of the budget. Police expenditures represent more than half of the General Fund expenditures, and consume a growing share of the available General Fund revenues. The next largest category is the Citywide contractual obligations, such as pension obligation bond debt service, followed by Parks and Recreation and Public Works expenditures.

**GENERAL FUND BUDGET DOLLARS**

**Graph No. 28**

**Uses**



The General Fund expenditures illustrated above are: Police (53.5%), Fire (16.6%), Parks and Recreation (10.4%), Public Works (6.7%), and Debt Service (8.0%). The remaining 4.9% is used for general government, economic development, and Citywide expenditures.

**Fresno's Budget (Total Government)**

The Fresno budget is comprised of the following components:

The **General Fund**, which includes four operating departments (Police, Fire, Public Works and Parks and Recreation) plus five non-operating departments (Economic Development, the City Council, the Mayor's Office, the City Manager's Office and the City Clerk's Office). The General Fund also services debt that is not specifically attached to the Enterprise Funds or the Trust Funds.

## **MEETING THE CHALLENGE**

The **Internal Service Funds (ISFs)**, as the name implies, provide certain services to the General Fund Departments as well as to the Enterprise Departments and the Special Revenue Funds. These services include Human Resources, Finance, Purchasing, Information and Communication Services, Fleet Services and Risk Management. They also fund the City Attorney's Office.

The **Enterprise Funds** include six self-standing and independently funded activities, including the City Airport, Convention Center, Water System, Sewer System, Solid Waste Enterprise and Bus Transit (FAX).

The **Other Funds** include Special Revenue Funds received for a special purpose including assessment districts, Community Development Block Grants, and special gas taxes; certain capital project revenues; and certain debt service funds. These funds are received for and must be used for specific purposes.

To understand the benchmark data that follows, it is important the reader understand the following nomenclature (for an illustration see graph on page 55):

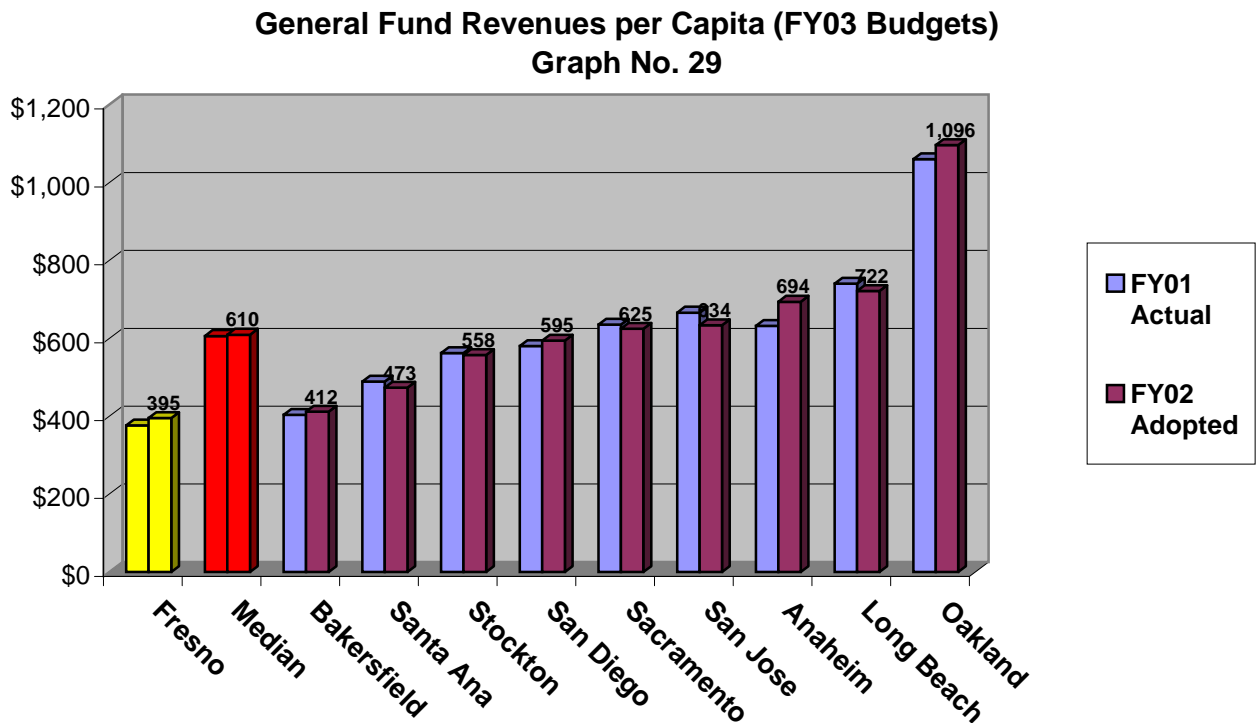
**Total Government** includes all of the preceding Funds.

**General Government** includes the General Fund and the Internal Service Funds.

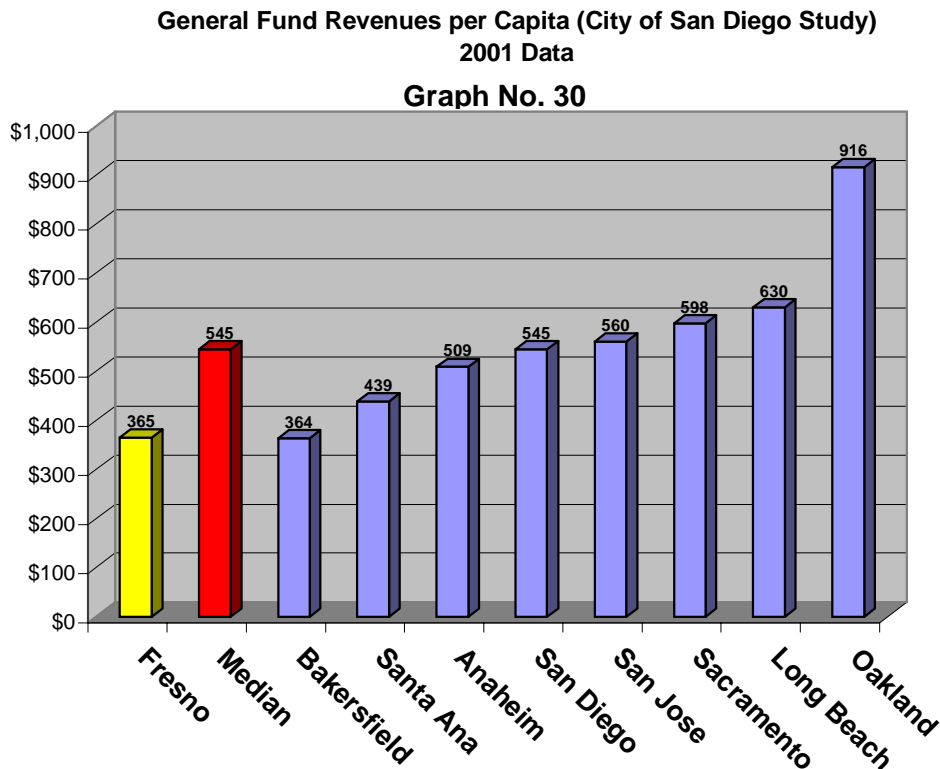
**General Government Central Services** includes the Internal Service Funds and those organizations in the General Fund that provide internal services to all the Funds, namely the City Council, Mayor, City Manager's Office and City Clerk's Office (the non-operating General Fund departments).

## REVENUE BENCHMARKS

The following chart illustrates that the City of Fresno has the lowest per capita revenue for its General Fund of any peer City. This trend is apparent in both the FY 2001 actual expenditures, and the FY 2002 adopted budgets, showing Fresno's General Fund revenues per capita at \$395, 35% below the peer city median of \$610. The cities of Bakersfield and Santa Ana are the next lowest, at 4% and 20% higher than Fresno. At the higher end of the chart, Long Beach and Oakland are 83% and 177% higher, respectively.



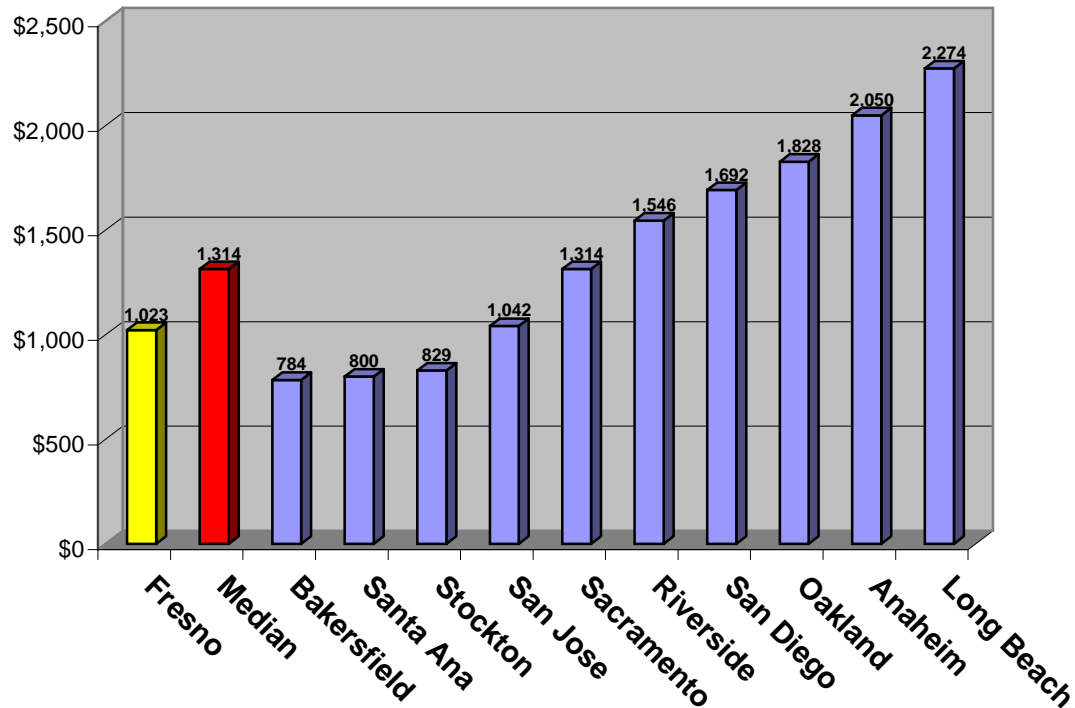
In another study completed August 28, 2002, by Kelling, Northcross & Nobriga for the City of San Diego, comparable data was found.



The preceding chart illustrates that Fresno and Bakersfield again are at the lowest end of the Chart for the receipt of General Fund Revenues on a per capita basis. The Cities of Long Beach and Oakland are again at the higher end of the chart, at 73% and 151% higher than Fresno, respectively. In this study, Fresno's General Fund Revenues per capita were 33% less than the median for its peer cities. The report derived its data from Comprehensive Annual Financial Reports (CAFRs) and FY 2000 and FY 2001 Budgets.

**Total government** revenues per capita are illustrated below. As described on the previous pages, total government revenues include all sources of revenues (e.g., taxes, fees, assessments, intergovernmental revenues, and other city revenues such as rents, revenues from licenses and permits, debt financing proceeds, etc.).

**Total Government Revenues per Capita (Cities Annual Report)  
Graph No. 31**



Total government revenues per capita for the City of Fresno are \$1,023. This makes Fresno 22% lower than the Median (\$1,314) for its peer cities. This low level of overall revenues occurs despite the fact that the City of Fresno is among the cities providing the most extensive offering of public services among its peers. The following chart illustrates the number of enterprise operations provided by the peer cities.

**Chart No. 2**

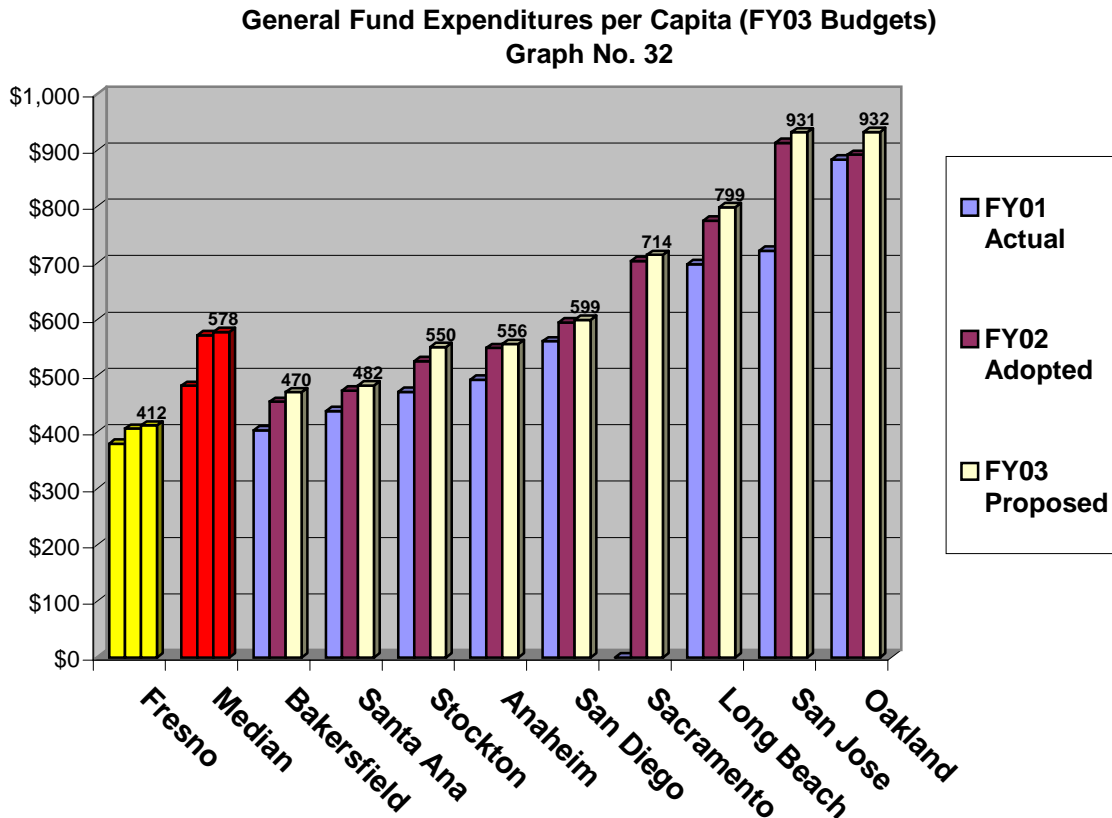
City	Airport	Harbor	Convention Center	Water System	Sewer System	Solid Waste Enterprise	Electric Power	Gas Power	Library	Bus Transit
Fresno	Y	N	Y	Y	Y	Y	N	N	N	Y
Long Beach	Y	Y	Y	Y	Y	Y	N	Y	Y	N
Sacramento	Y	N	Y	Y	Y	Y	N	N	Y	N
Oakland	Y	Y	Y	N	N	N	N	N	Y	N
Stockton	N	N	N	Y	Y	Y	N	N	Y	N
Anaheim	N	N	Y	Y	N	Y	Y	N	N	N
Riverside	Y	N	Y	Y	Y	Y	Y	N	N	N
Bakersfield	N	N	Y	Y	Y	Y	N	N	N	N
San Diego	Y	Y	Y	Y	Y	Y	N	N	Y	Y
Santa Ana	N	N	N	Y	Y	Y	N	N	Y	N
San Jose	Y	N	Y	Y	Y	Y	N	N	Y	Y

The preceding chart illustrates that the City of Fresno provides six enterprise operations. Nearly half of the peer cities provide four enterprise operations, or one-third less than Fresno provides with its more limited revenues. The six enterprise operations provided by the City of Fresno include Airports, Convention Center, Water, Sewer, Solid Waste, and Transit (FAX) bus operations.

## EXPENDITURE BENCHMARKS

### Fresno Budget Overview

Fresno consistently stands at the lower end of expenditure categories relative to its peer cities. The following chart illustrates that trend for General Fund Expenditures for all three budget years, as found in the FY 2003 Proposed Budgets.



The above chart illustrates that the City of Fresno General Fund per capita expenditures are approximately 30% less than the median for the peer cities. At the lower end of the scale, Bakersfield and Santa Ana are 14% and 17% higher than Fresno. At the higher end of the scale, San Jose and Oakland are both 126% above Fresno for General Fund per capita expenditures.

### **General Fund Departments – Overview**

As discussed previously, the General Fund is comprised of five operating departments and five non-operating departments, plus debt service.

#### **General Fund Operating Departments**

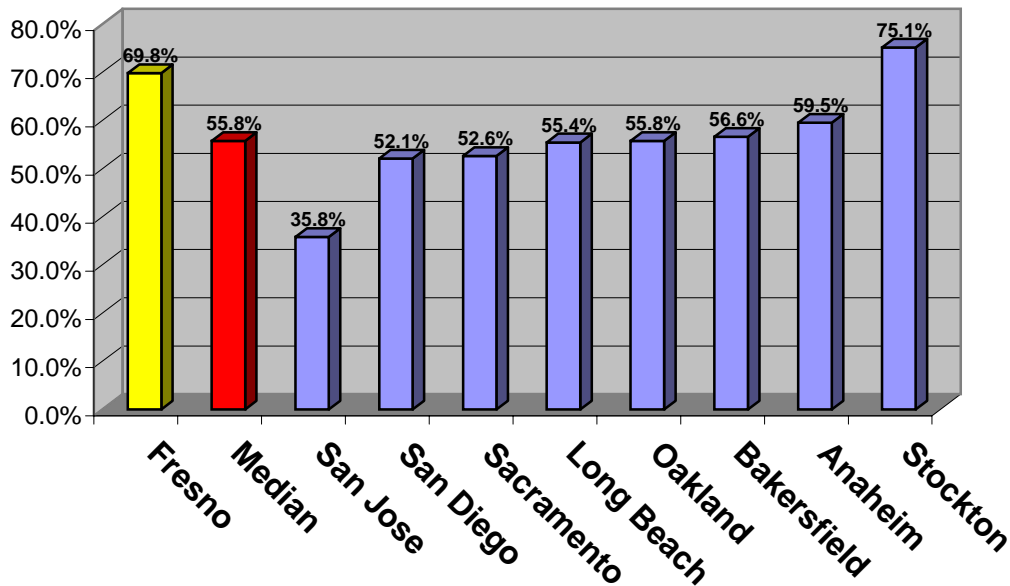
##### **Public Safety**

As is the case with most cities, Fresno spends more on Public Safety, including Police and Fire, than any other activity.

##### **Combined Police and Fire**

Together, Police and Fire comprise 70 percent of the General Fund budget.

**Police & Fire Expenditures as Percent of General Fund (FY03 Budgets)**  
**Graph No. 33**

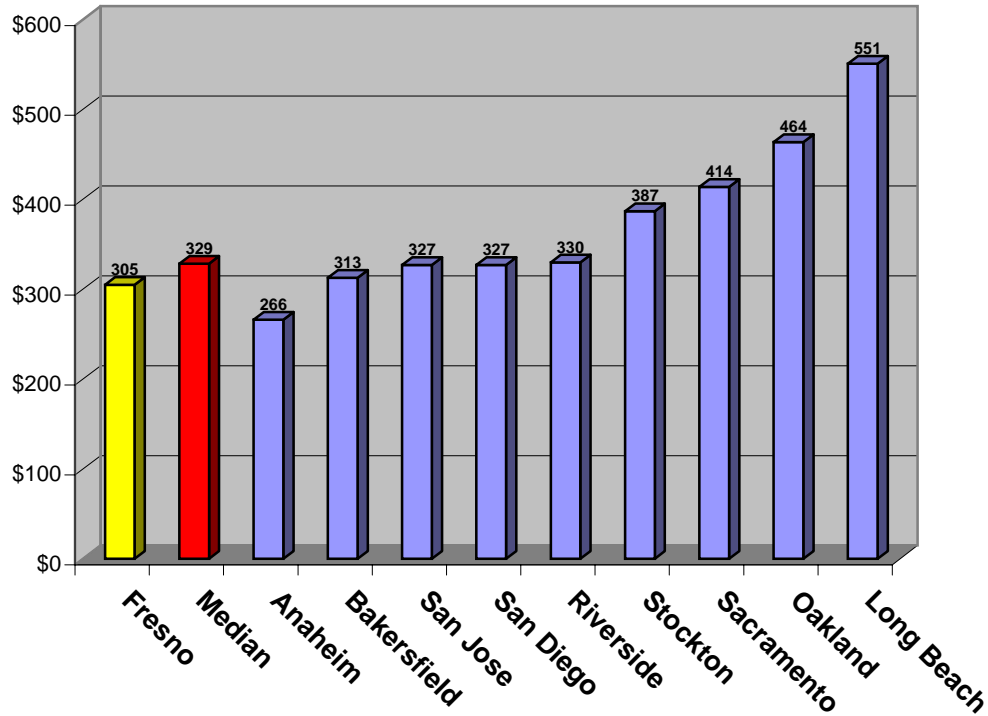


The above chart illustrates that Fresno's percentage of Police and Fire Expenditures as a Percent of General Fund is 25% higher than the median for the peer group. On the lower end are San Jose and San Diego at 49% and 25%, respectively, less than Fresno Police and Fire. At the upper end Anaheim is 15% less than Fresno; and, Stockton, the only peer city spending more, is 7.6% more than Fresno for Police and Fire Expenditures.

As shown on the following chart, the fact that Fresno uses such a large percentage of its General Fund for Public Safety, is more a function of the small relative size of its General Fund than out of control spending. In fact, on a per capita basis, Fresno's expenditures for Public Safety are 7% below the peer city median.

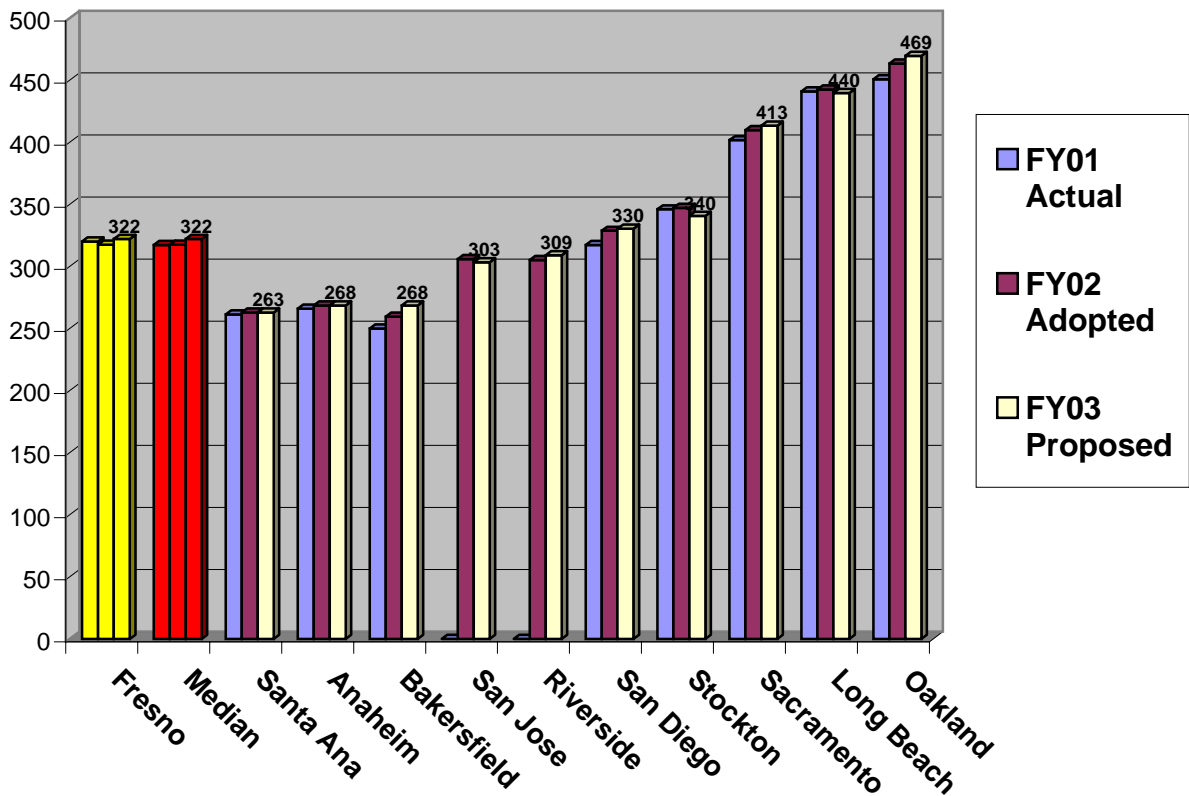


**Police & Fire Expenditures per Capita (FY03 Budgets)**  
**Graph No. 34**



The following chart illustrates the staffing commitment for Police and Fire by illustrating FTEs on a per capita basis and shows that Fresno is at the exact median of the peer cities. When compared to the preceding chart, this provides an indicator that Fresno's expenditures per FTE are lower than those of its peers, a finding that the Task Force found to be consistent across virtually all City departments.

**Police and Fire FTEs per 000,000 (FY03 Budgets)**  
**Graph No. 35**

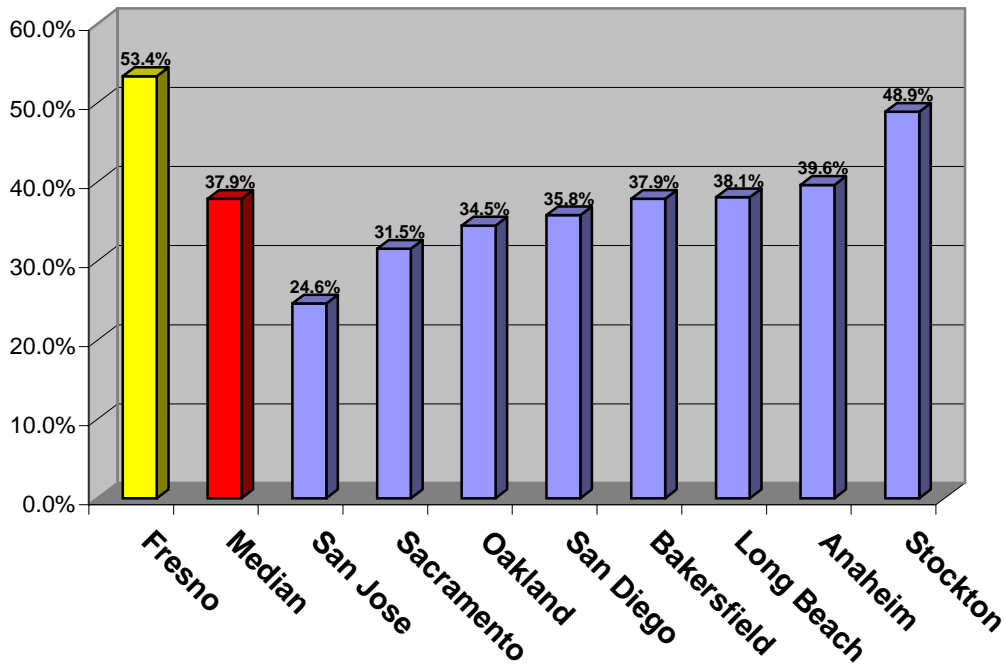


The following section separates the two components of Public Safety, Police and Fire. When viewed in this manner, the “average” expenditures for public safety are changed, revealing that a major part of the Public Safety expenditures go toward Police services, as opposed to Fire services.

**Police Department**

Police expenditures represent more than half of the General Fund expenditures, and represent a growing share of the available General Fund revenues.

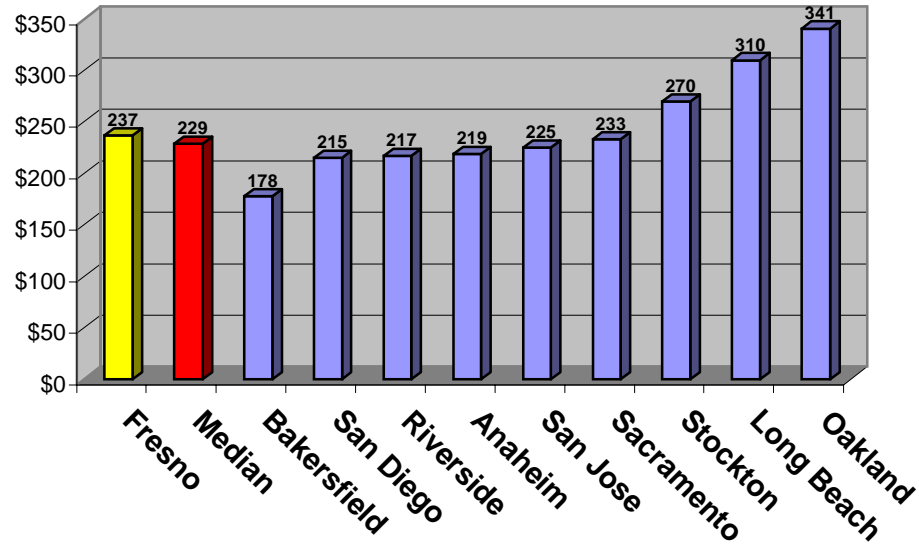
**Police Expenditures as Percent of General Fund (FY03 Budgets)**  
**Graph No. 36**



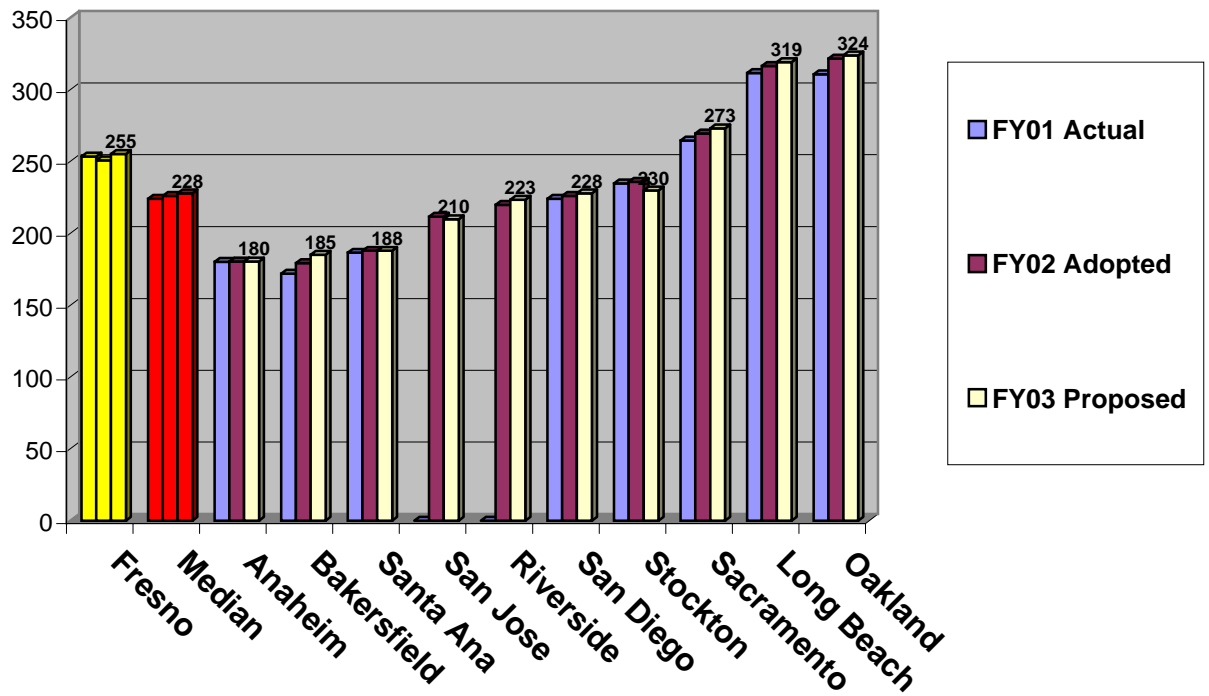
The above chart illustrates that Fresno has the highest Police Expenditures as a percent of General Fund among its peer cities. Fresno's percentage of General Fund expenditure for Police Services is 41% higher than the median for the peer cities. The greatest contrast is San Jose, which spends the smallest percent of General Fund on Police expenditures.

When examined on a Police expenditure per capita basis, as illustrated in the charts which follow, there is a less dramatic difference between Fresno and its peer cities.

**Police Expenditures per Capita (FY03 Budgets)**  
Graph No. 37



**Police FTEs per 000,000 (FY03 Budgets)**  
Graph No. 38



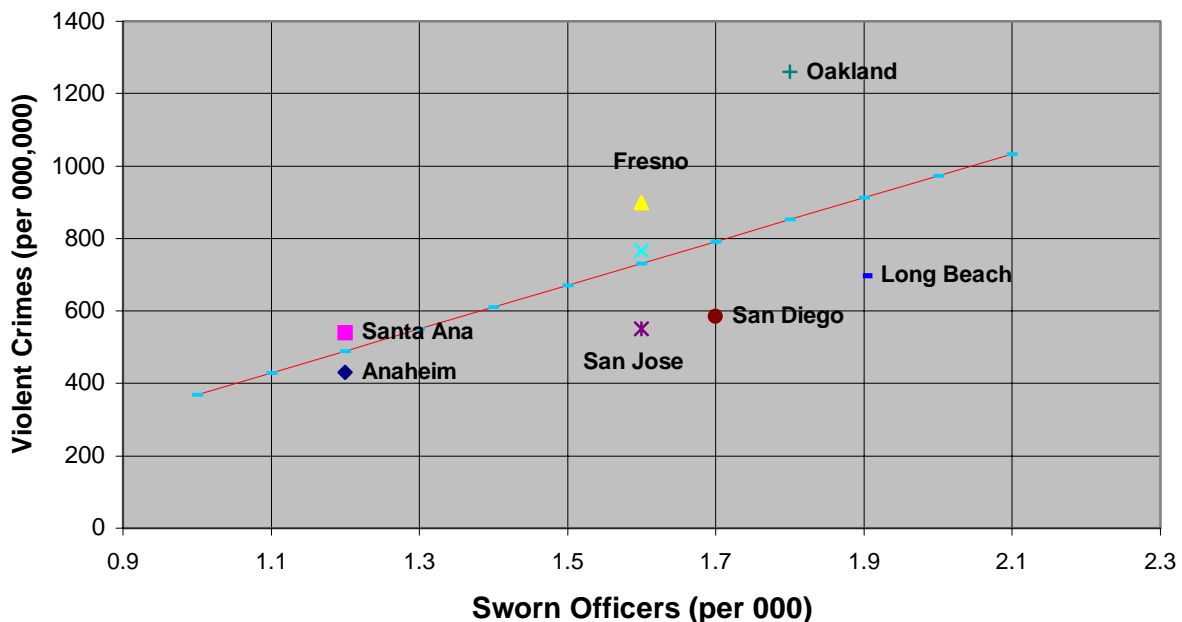
## MEETING THE CHALLENGE

The first chart illustrates that Fresno Police expenditures, when viewed on a per capita basis, are slightly above the median for the peer cities. Fresno Police expenditures of \$237 per capita are only 3% higher than the median of peer cities. More than half of the peer cities are within 10% of the Fresno per capita expenditures for Police.

The second chart illustrates the same general pattern, with Fresno's per capita FTEs 12% above the median, and most of the remaining cities closely clustered around the median.

The following two charts are critical in the examination of the relationship of three important variables – number of police officers, the incidence of violent crimes, and the rate of unemployment. These charts are helpful in beginning to understand the pervasive problem of structural unemployment and its relationship to violent crime.

**Police Department Comparisons**  
**Graph No. 39**



Source: U.S. Department of Justice 2000 Report

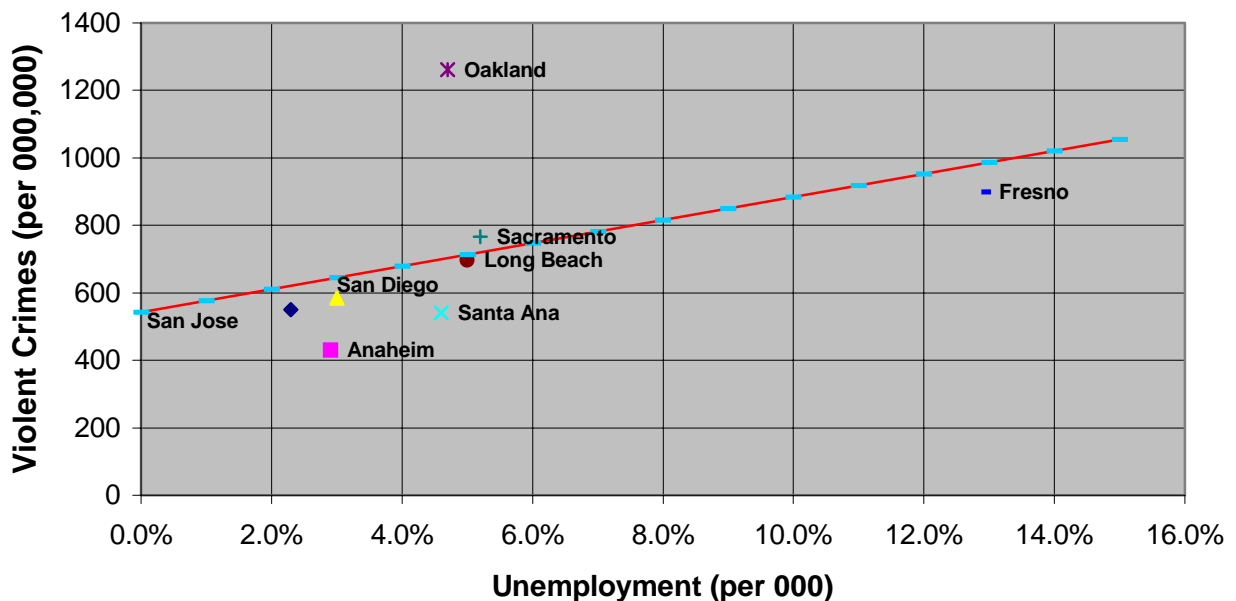
## MEETING THE CHALLENGE

At first examination, the reader might arrive at an interesting conclusion – that the more sworn officers a city has per capita, the higher the incidence of violent crime. It is, of course, the reverse that is true. It is the high incidence of crime that requires the high number of police officers. This chart illustrates that Fresno has the second highest incidence of violent crime among the peer cities.

It is when compared to the second chart that one gets clear insight into Fresno's situation. The chart illustrates the direct proportionality between violent crime and unemployment (Oakland excepted). The relationship is clear: the higher the unemployment rate, the higher the incidence of violence; and, the higher the incidence of violence, the higher the number of police officers required. As shown earlier in this report, Fresno has the highest unemployment among its peer cities, more than twice the median, and it has remained at that level for more than a decade. It should be clear to the reader that if this structural unemployment issue is not addressed, the City will continue to require more and more police service, squeezing out available general funds for other services and/or requiring higher and higher taxes. Based on the pattern shown in the following chart, Fresno's incidence of violent crime would drop by 30% if its unemployment was at the median of the peer cities.

### Police Department Comparisons

Graph No. 40

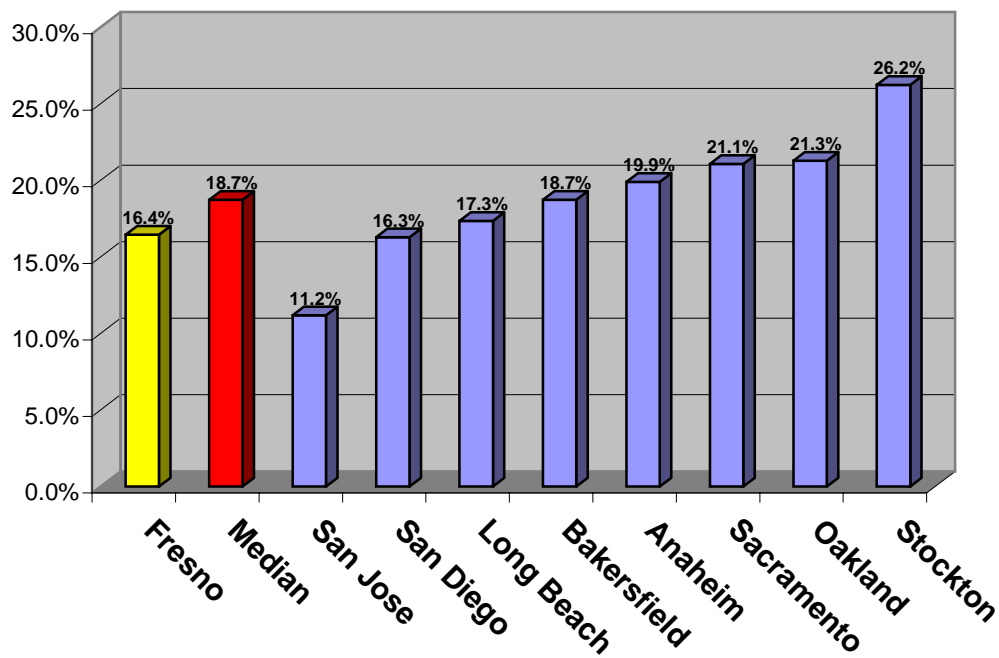


Source: U.S. Department of Justice 2000 Report & Census 2000

**Fire Department**

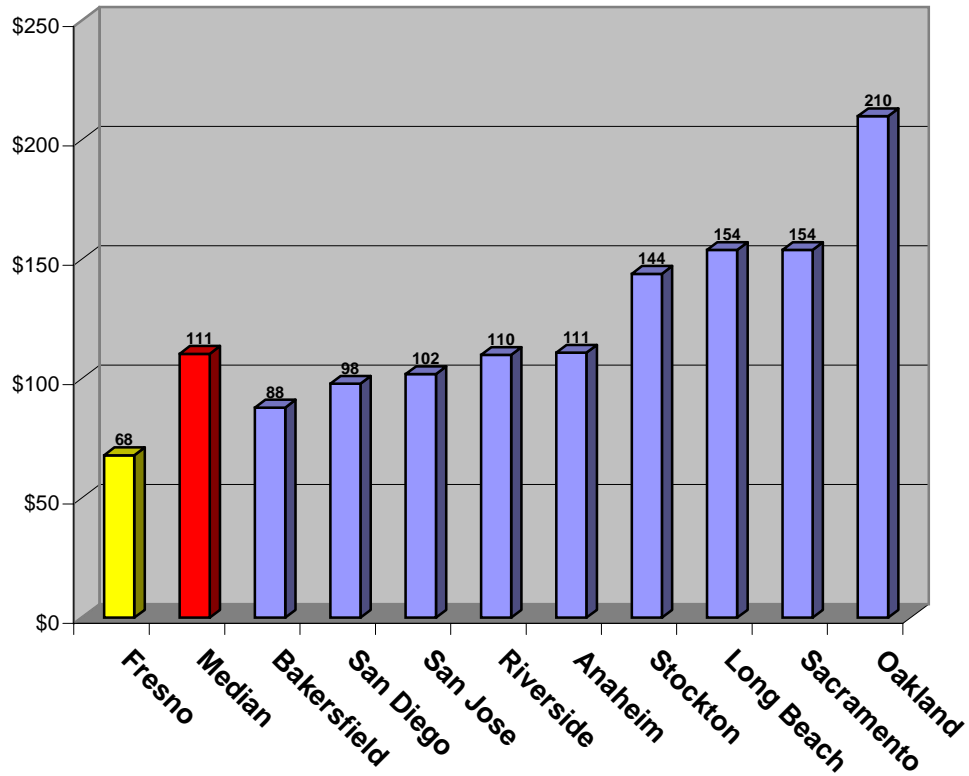
As previously referenced, Public Safety when looked at as a whole appears to be close to the median in expenditures. However, a review of Fire expenditures alone shows that, in fact, the Fresno Fire Department consumes less of the General Fund than the peer city median and that the support for Fire services in Fresno is the lowest of all the peer cities on a per capita basis.

**Fire Expenditures as Percent of General Fund (FY03 Budgets)**  
**Graph No. 41**



At \$68 per capita, Fresno Fire is last among the peer cities, spending 63% less than the median.

**Fire Expenditures per Capita (FY03 Budgets)**  
**Graph No. 42**

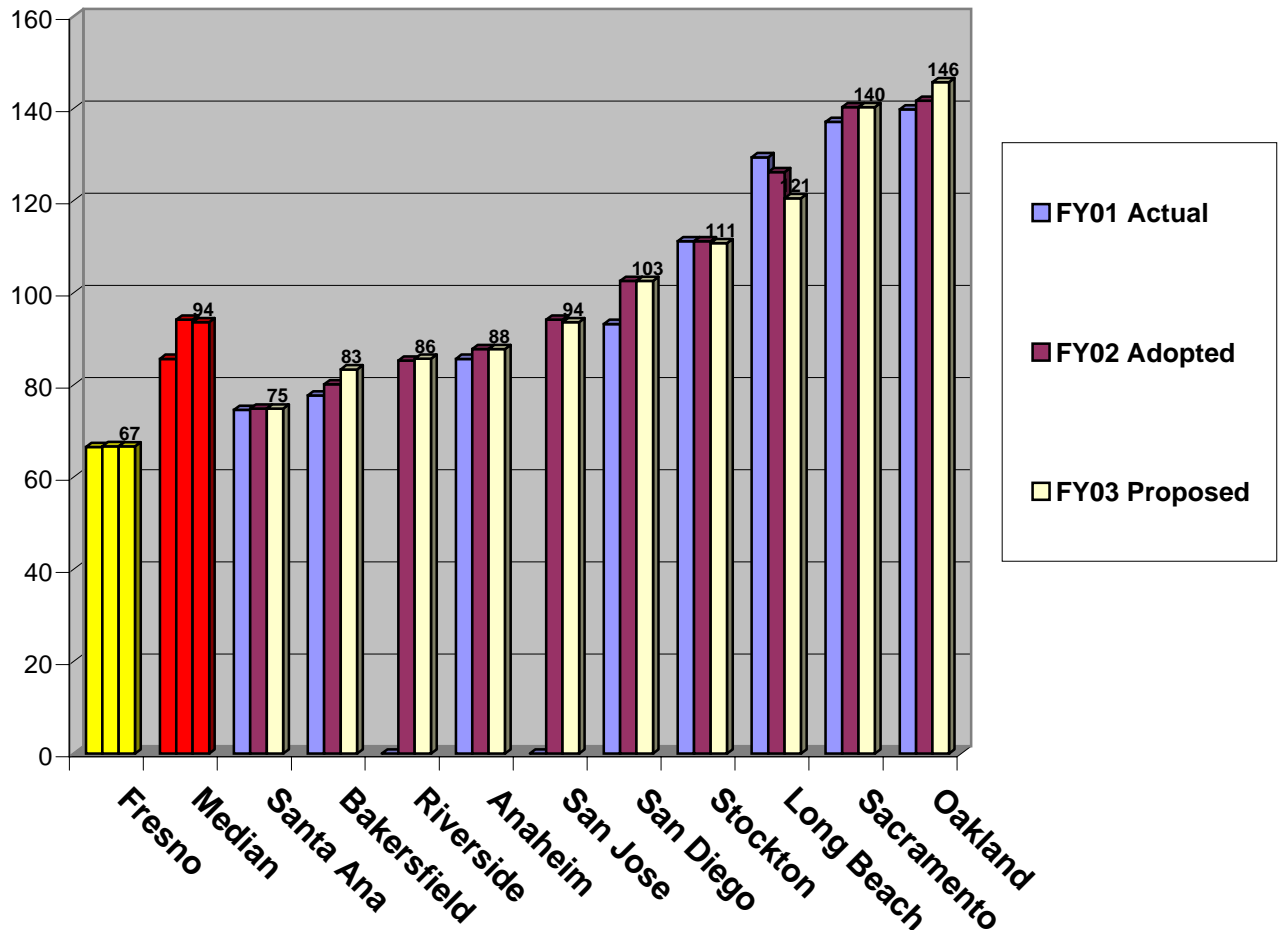




## MEETING THE CHALLENGE

The Fresno Fire Department has the lowest number of FTEs per 100,000 population, some 40% below the peer city median. This lower support for City Fire Services has an impact on fire insurance rates for Fresno residents, which are already relatively high and could go higher if the situation is not corrected. The low number of FTEs per capita also forces the Fire Department to make inefficient use of its equipment fleet in order to remain in compliance with OSHA standards. Further, the condition of Fresno's fire stations and equipment suggest a deferred maintenance condition that must eventually be addressed. In recognition of this situation, the Fresno Fire Department received a larger increase in its FY 2003 budget than any other City department, but there is a long way to go before the situation is fully addressed.

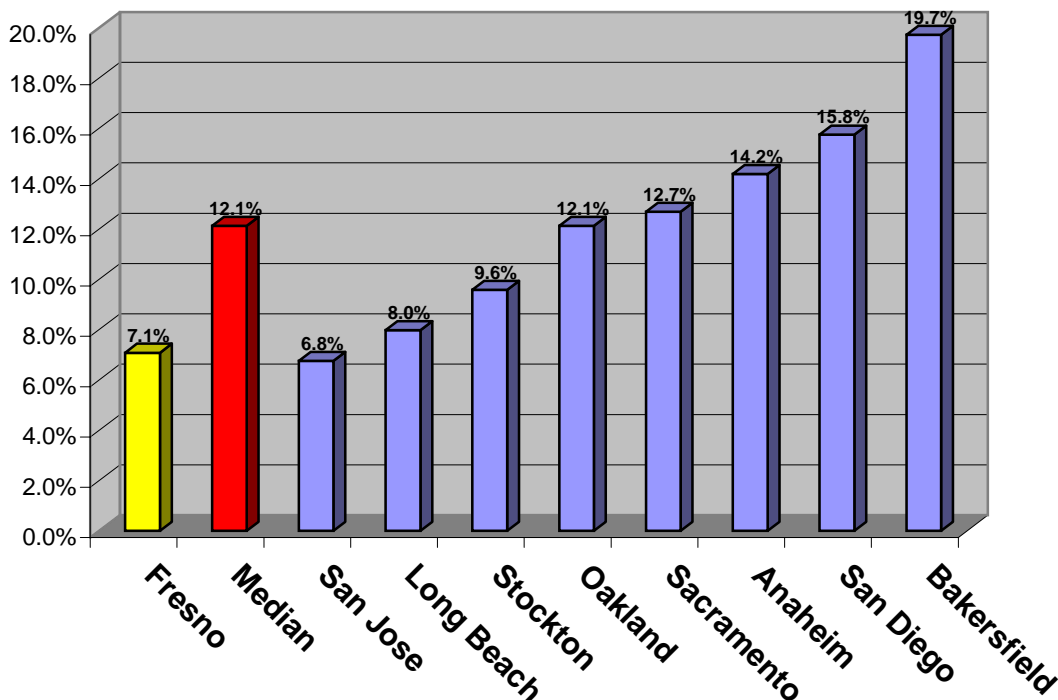
**Fire FTEs per 000,000 (FY03 Budgets)**  
**Graph No. 43**



**Public Works**

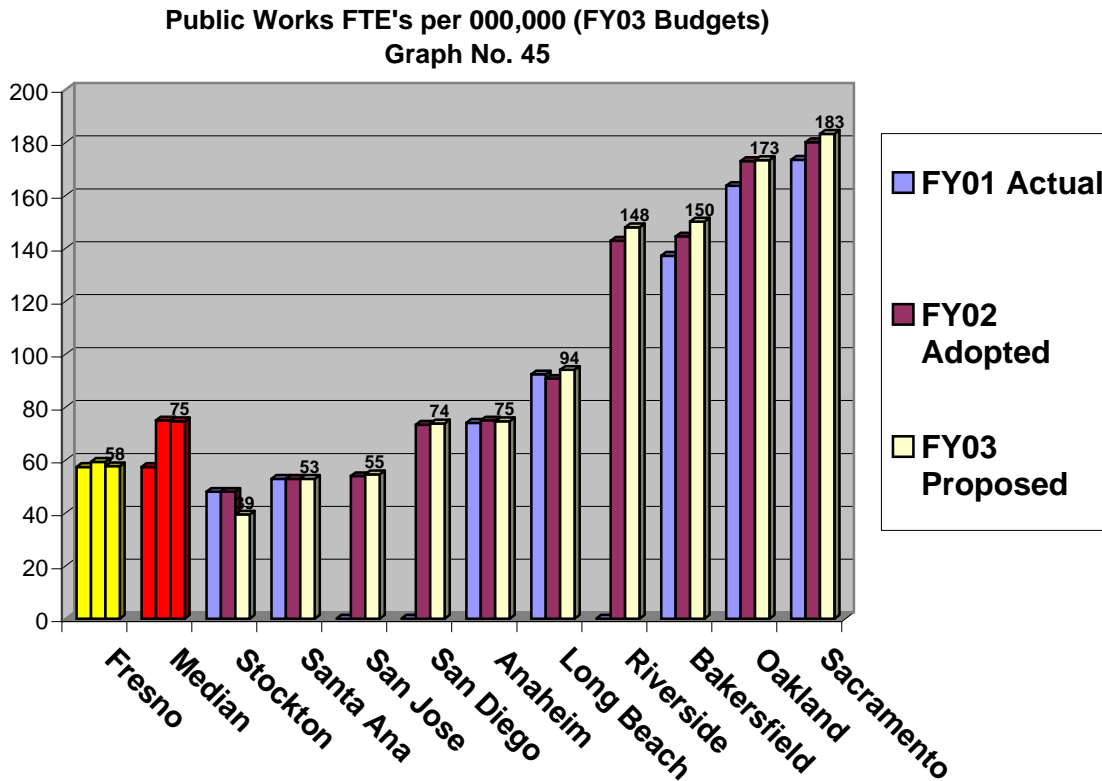
Public Works expenditures are a bit more difficult to compare between peer cities, since there are major differences in age of the infrastructure, and organizational approaches. Even with this difficulty, a comparison from FY 2001 CAFRs shows Fresno dramatically lower than the median on percent of General Fund spent on public works, which is not surprising since we spend so much more than the median of our General Fund on police services.

**Public Works Expenditures as Percent of General Fund (FY01 CAFRs)**  
**Graph No. 44**



Public Works FTEs per capita, taken from published budgets for FY 2001, 2002 and 2003 show a similar pattern where Fresno continues to be below the median. Variations in FTEs and/or expenditures may result from the provision of particular programs such as:

- Development Services
- Solid Waste Collections
- Parking Enforcement-Recycling
- Animal Services
- Maintenance Services (buildings, equipment, landscaping, infrastructure)
- Graffiti Abatement
- General Services
- Telecommunications
- Wastewater Treatment

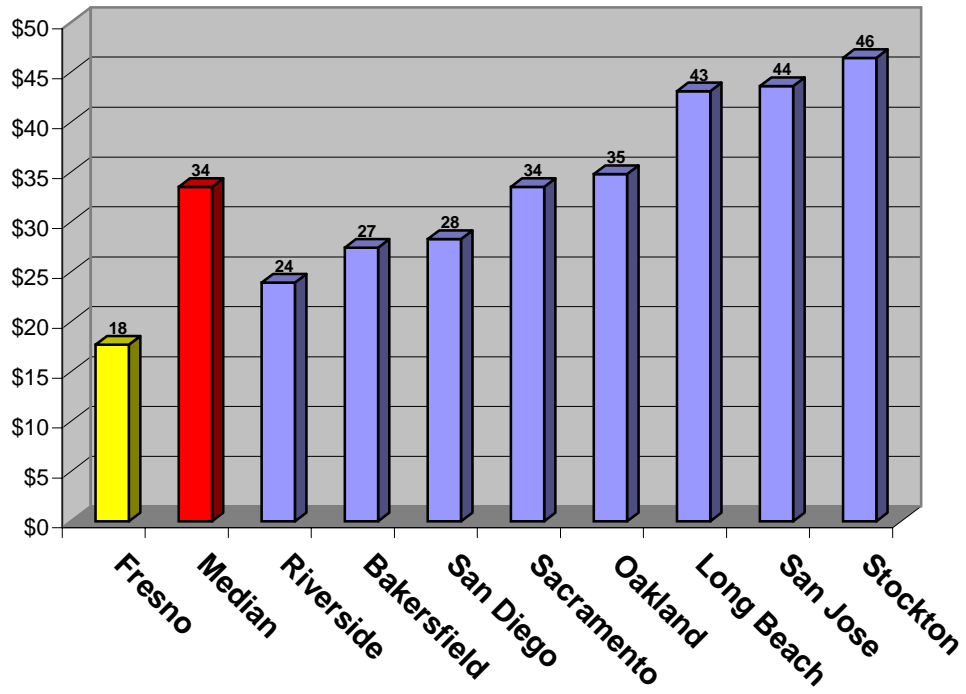


Since Public Works activities vary so much across the peer cities, the Task Force looked at specific activities for comparability. One such activity was "total expenditures per lane mile." The following graph shows that Fresno spends less per lane mile than any of the peer cities, 47% below the median. In fact, the City of Fresno was recently recognized by the Reason Foundation as having one of the most efficient street departments in California and the Nation, and it does appear that Fresno operates its street program quite efficiently. However, this data raised the additional question of whether major deferred maintenance of road work was occurring, and the Department of Public Works was asked to review the report and address this concern.

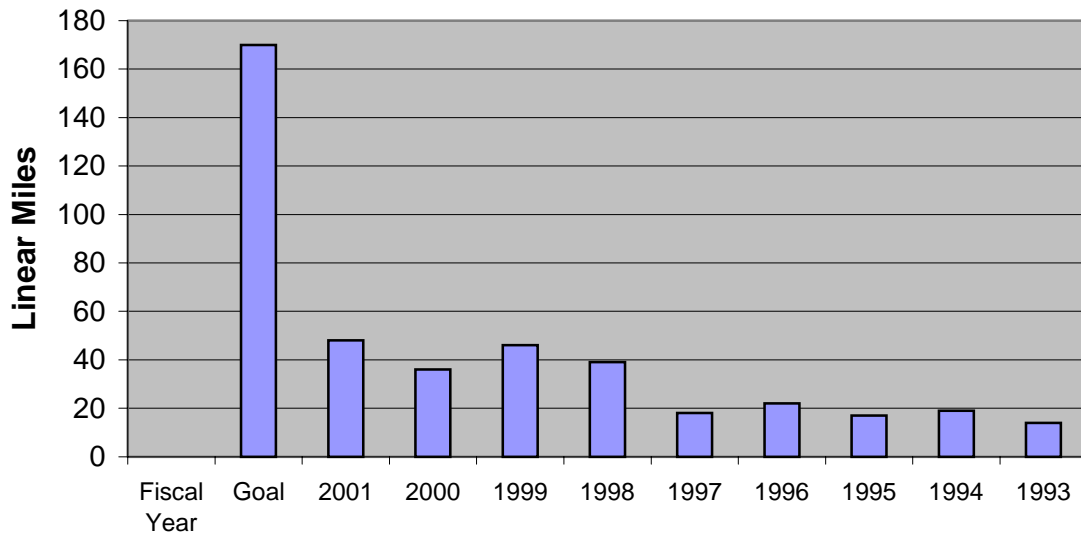
Their report confirmed that Fresno is spending far less than it needs to in order to maintain current streets, which will result in even more expensive repairs in the future. As illustrated in the chart below, it is unknown whether all cities are falling behind, but this information does show that spending less is not an option for the long term if the result is simply deferring those costs to the future. At no point in the past ten years has Fresno spent close to the amount considered necessary by Public Works to maintain a ten-year street renewal cycle. In fact, Fresno is closer to a thirty-year cycle.

## MEETING THE CHALLENGE

Street Expense per Lane Mile in \$000's (FY01 CAFRs)  
Graph No. 46



Street Maintenance Miles Per Year Completed  
Graph No. 47



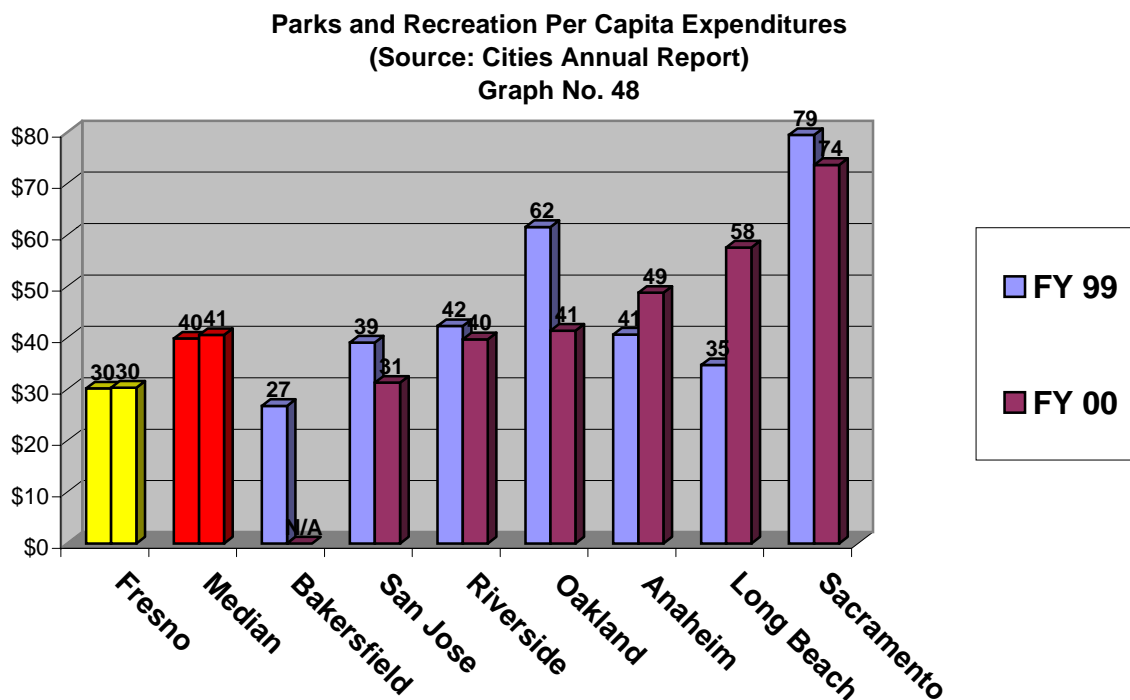
## **UNFUNDED CAPITAL NEEDS**

It is anticipated that, as in previous years, the capital needs of the City for the FY 2003 budget year will far exceed the limited available resources to pay for them. Fresno simply does not have the capital that is required to invest in its infrastructure and to meet all the needs in every department, not even with the current level of outside funding support in the form of Federal and State grants. Based on previous year capital budget trends, the Public Works Department estimates that the City will need about \$224 million per year over the next five years to fully address and meet the capital needs that currently exist and that will exist in the future. Most of the projected capital needs have been identified as originating from the Public Works, Public Utilities, Transportation (both Airports and Transit), Convention and Fire Departments, and are dedicated to projects such as: new facilities to accommodate and meet service levels (Parks); infrastructure improvements; ADA compliance projects; neighborhood improvements; housing development; Fire Station facilities; and, high priority pavement maintenance and reconstruction of City streets and major transportation arteries.

### **Parks and Recreation**

Comparing Parks and Recreation expenditures is even more difficult than Public Works since not every city has a Zoo, or large after-school programs, as does the City of Fresno. In fact the full range of programs, number of acres of park lands, and inclusion of activities such as median strip maintenance differ greatly between cities.

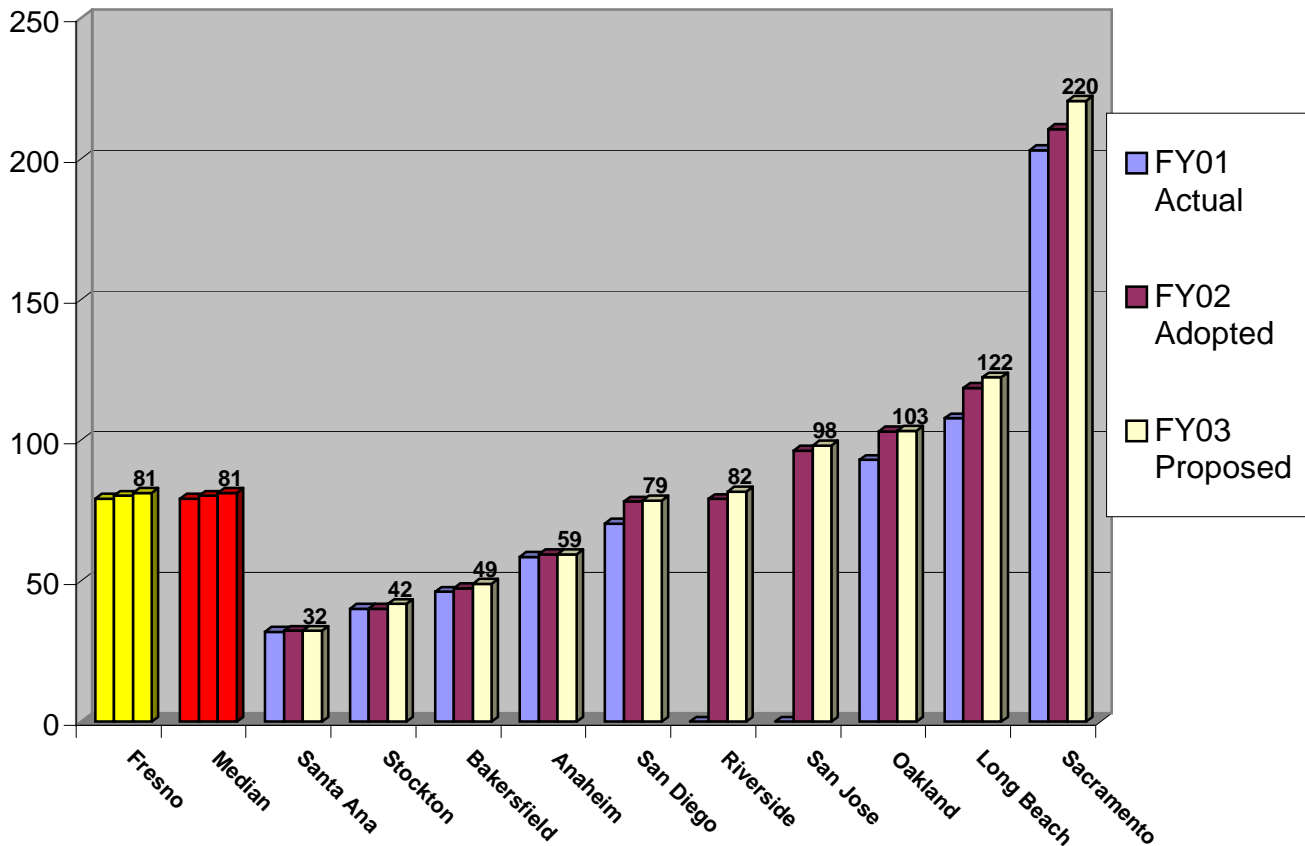
One source of data that appeared to standardize information on Parks and Recreation was the California State Controller's Cities Annual Report which showed that in FY 1999 and FY 2000 Fresno spent significantly less than the median per capita on Parks and Recreation activities (excluding those activities that are fee supported).



## MEETING THE CHALLENGE

On a per capita FTE basis, Fresno is at the median, which is partly explained by the large number of low-paid, part-time employees involved with the after-school program, median strip maintenance, and the Zoo.

**Parks and Recreation FTEs Per Capita  
Per 000,000 (Source: FY03 Budgets)  
Graph No. 49**



Variations in FTEs and/or expenditures may result from the provision of particular programs such as:

- After School Programs
- Park Maintenance
- Tree Maintenance
- Recreation Programming
- Special Events
- Public Affairs and Marketing
- Planning, Design and Development
- Childcare
- Special Amenities (harbor, marina, beach)

## **GENERAL GOVERNMENT CENTRAL SERVICES**

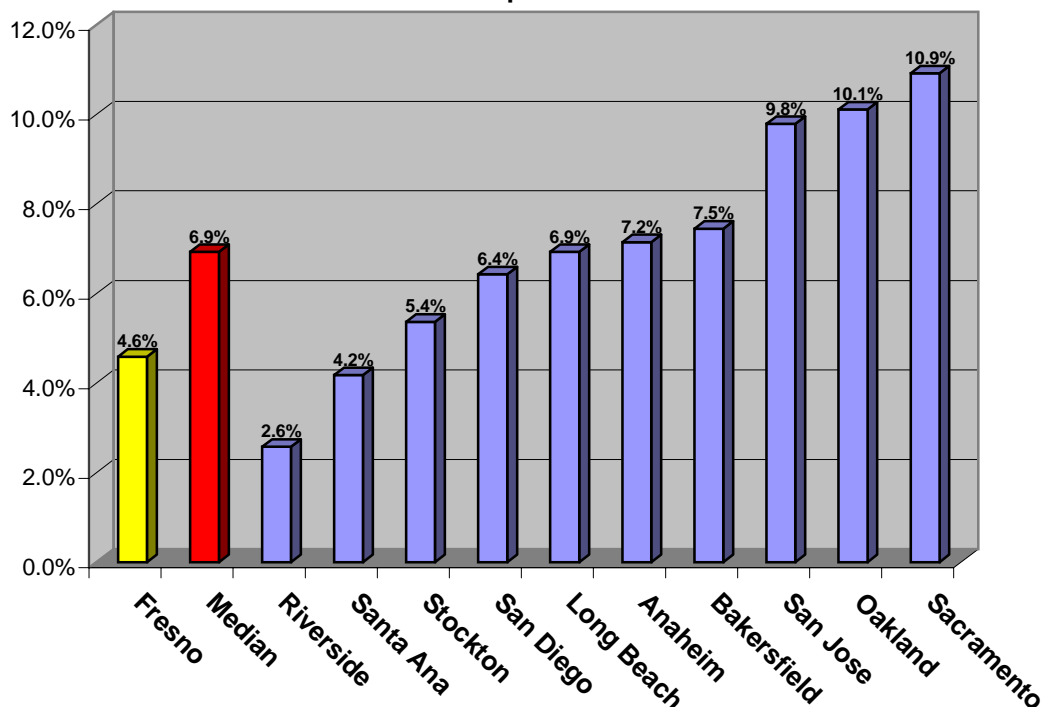
Another difficult area to compare expenditures across cities is for those central services that in the private sector are generally considered “overhead.” The categories that fall into government central services include the Mayor and City Council, the City Manager, the City Attorney and activities such as fleet services, information and communication services, finance operations, risk management, facilities, purchasing and human resources.

Governments are generally free to organize these functions as they please, and a wide variety of funding mechanisms are used, including the General Fund (most often used for the Mayor, Council and City Manager) and Internal Service Funds. The interdepartmental charges made by internal service funds apply to Enterprise Departments as well as General Funded Departments.

The following chart illustrates that Fresno City’s percentage of Total City Budget for General Government Central Services expenditures is 33% less than the median for the peer group.

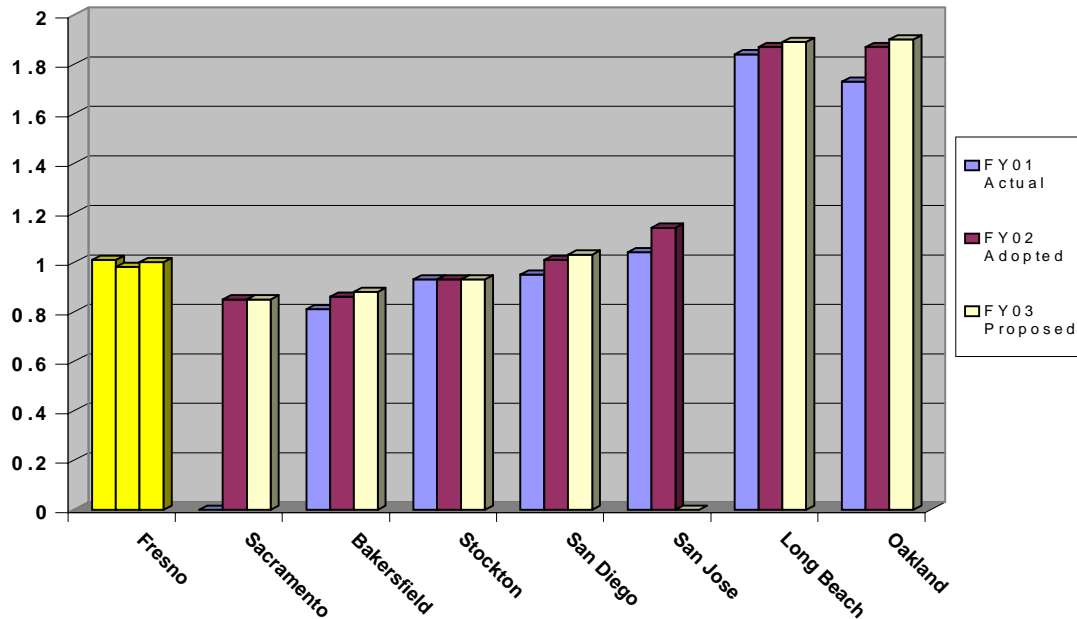
To provide some context, overhead expenses in the manufacturing sector typically are in the range of 4% to 6%, depending on the size, complexity, growth profile and management philosophy of the company. Given Fresno’s larger size, higher growth and greater complexity, it seems reasonable that its “overhead” should be higher than Riverside’s and Santa Ana’s. The fact that Fresno’s “overhead” is significantly lower than that of Cities like Stockton and Bakersfield suggests that Fresno is doing more with less. San Jose, Sacramento and Oakland have an overhead rate that would be unimaginable in the private sector.

**General Government Central Services Expenditures  
as % of Total City Budget  
(1999 State Report)  
Graph No. 50**



## MEETING THE CHALLENGE

**General Government Central Services FTEs Per Capita  
(FY03 Budgets)  
Graph No. 51**

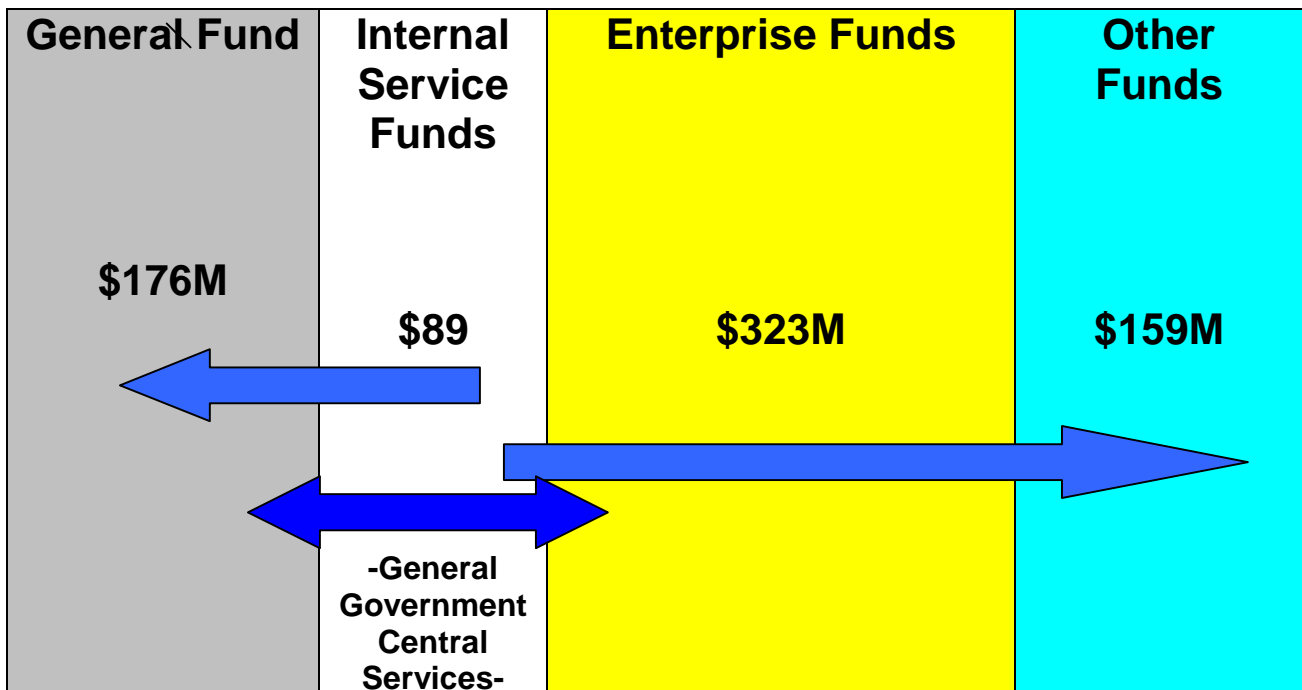


The chart below illustrates how the Total City Budget, including Enterprise Funds, Internal Services Funds and other funds is broken down.

## Fresno's Budget

**Graph No. 52**

### Total Government

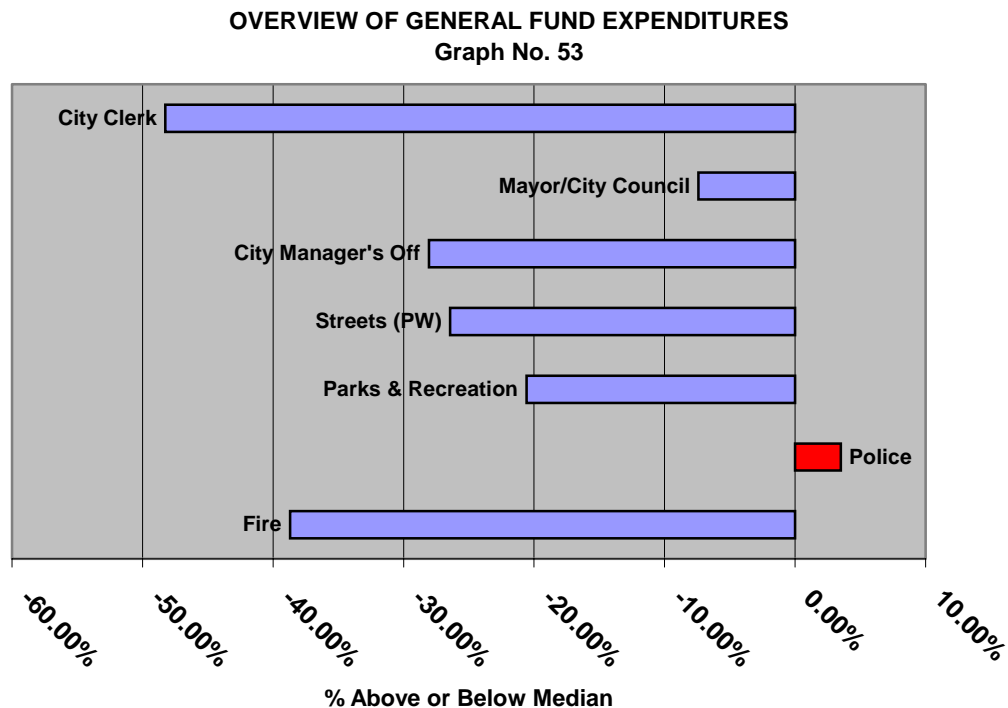




**Central Services**

As explained earlier in this report, the City of Fresno (like many of its peers) has Central Services funded in both the General Fund and in Internal Service Fund accounts. General Funded Central Services recover some of their costs through an adopted Cost Allocation Plan. These Central Services support all activities of the City, regardless of the funding source. The four central support departments within the General Fund are the Mayor, the Council, the City Manager and the City Clerk. Since most cities combine the resources of the Mayor and Council in reporting (operating under a different City Charter), the Task Force only did comparisons for three entities, combining Mayor and Council.

For ease of review, the following chart shows all General Fund Departments and the relative expenditures compared to the median of the peer cities. It can quickly be seen that Fresno is below the median for every category but Police expenditures.



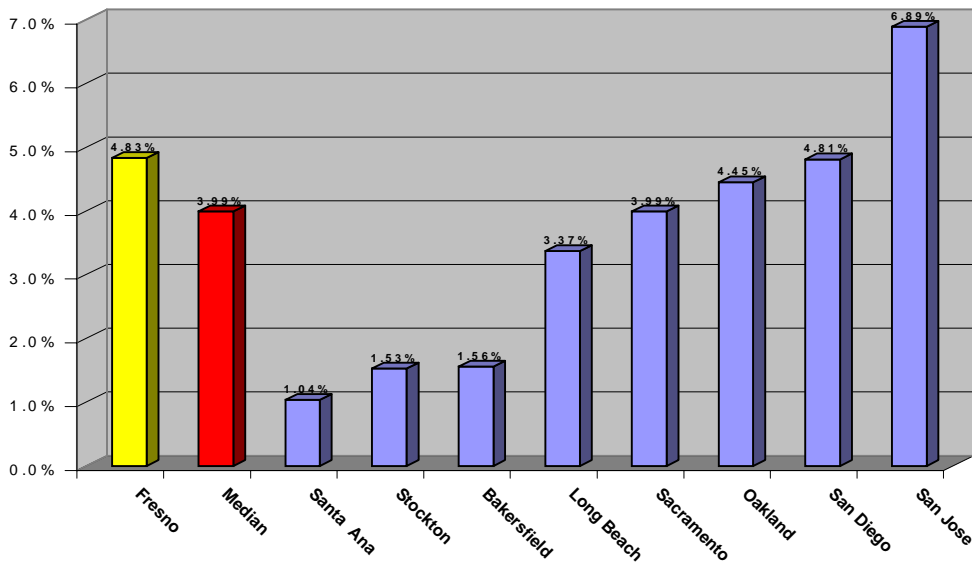
**Mayor and Council**

Mayor and City Council expenses are combined to allow comparisons with other cities. Most cities do not separate these costs. Variations in reporting of expenditures and/or FTEs may result from the existence of part-time versus full-time Council members and Mayor, part-time versus full-time staffs, the form of city government (i.e., Strong Mayor), support positions located in the City Manager's Office or other location rather than the Council/Mayor Office, and as in the case of San Jose, funding provided without specific positions identified.

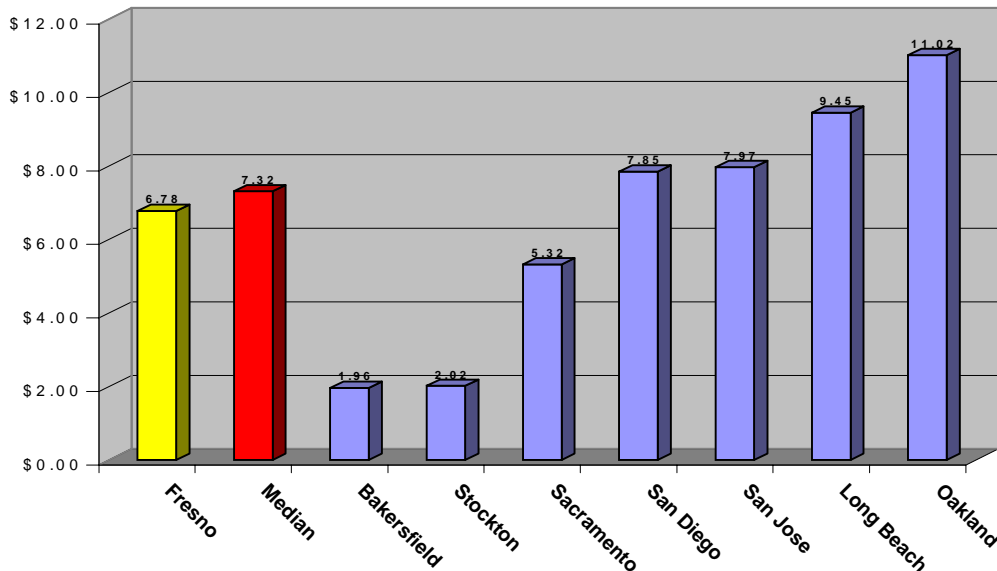
## MEETING THE CHALLENGE

As seen in the two charts below, Fresno's, expenditures for Mayor/City Council appear to be in line with those of the larger cities and/or those with Strong Mayor forms of government in the peer group. Of the four cities that report Mayor and City Council separately, Fresno spends \$1.31 per capita for the Mayor's Office, about half as much as San Diego (\$2.90) and San Jose (\$2.31), and one third as much as Oakland (\$3.16). Only Bakersfield (\$0.69), which has a part-time Mayor and is almost half the size of Fresno spends less than Fresno on the Mayor's Office where it is separately identified.

**Mayor/City Council Expenditures as % of General Government  
(FY 03 Budgets)  
Graph No. 54**



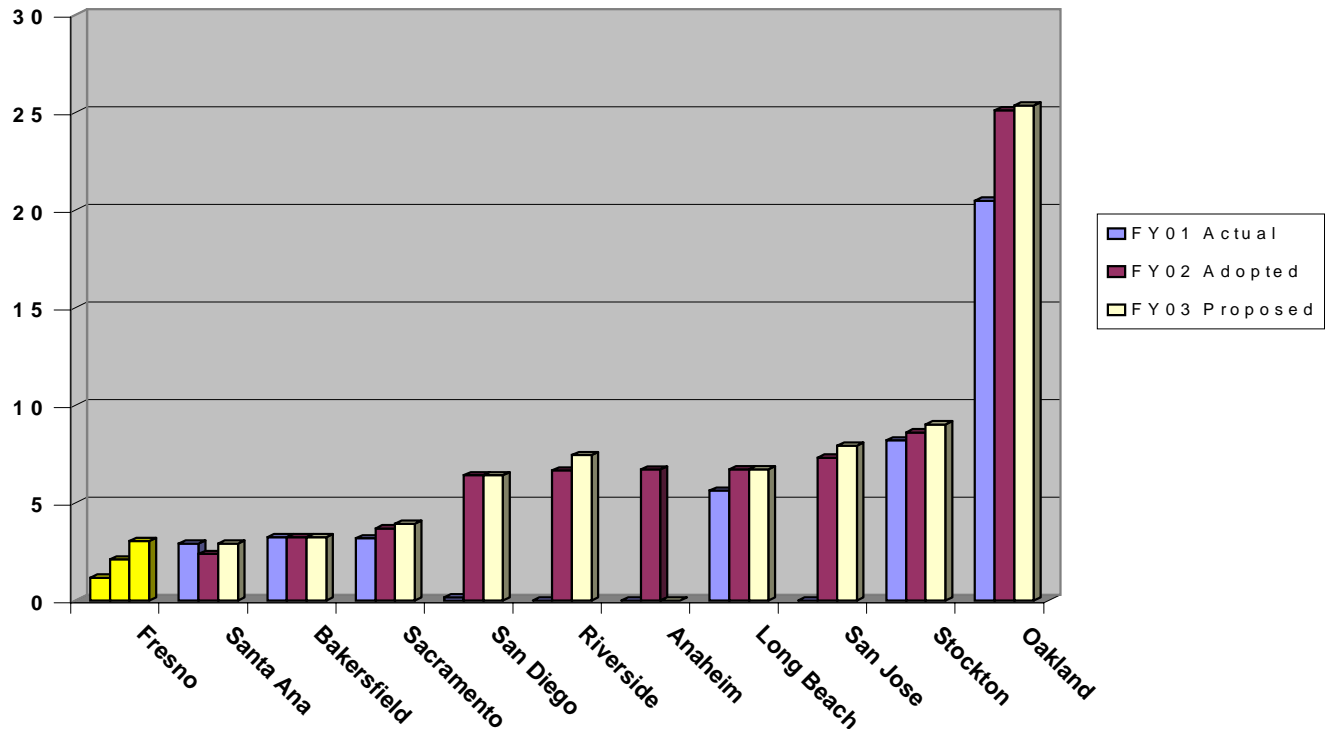
**Mayor/City Council Expenditures Per Capita  
(FY 03 Budgets)  
Graph No. 55**



**City Manager**

The charts below show that City Manager's Office expenditures and FTEs per capita are well below those of the peer groups. This is partially a result of some cities listing FTEs and their related expenses in the City Manager's Office vs. the Mayor's office.

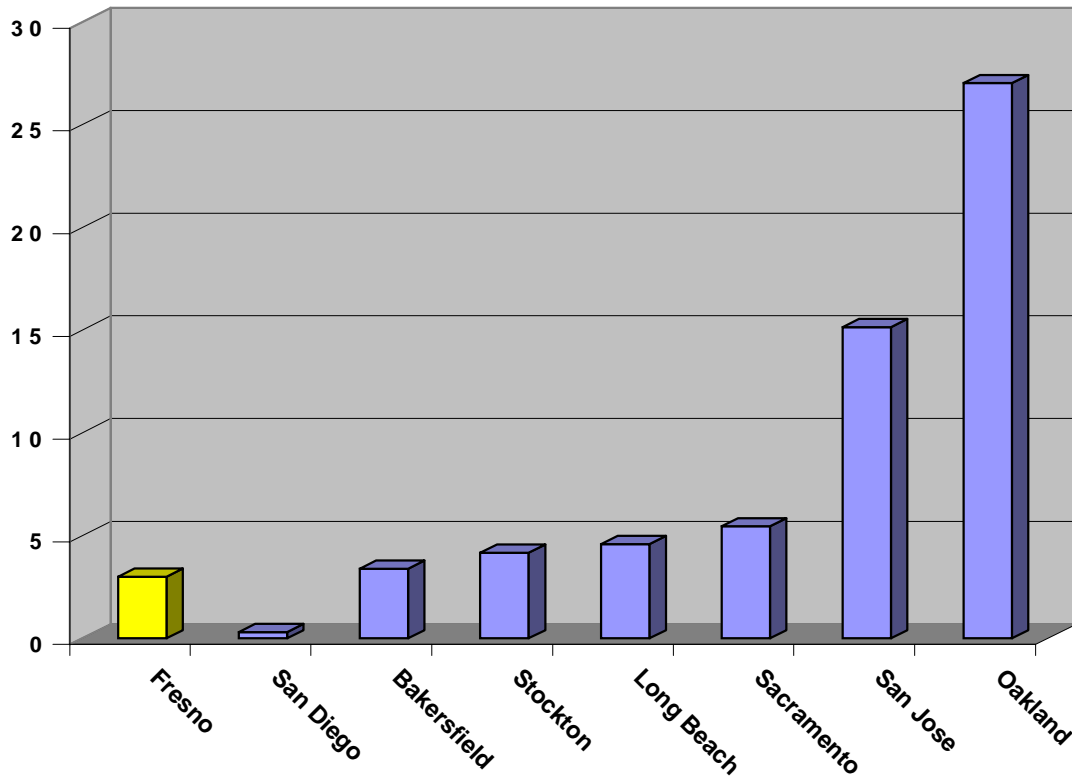
**City Manager's Office FTEs Per Capita (FY03 Budgets)**  
**Graph No. 56**



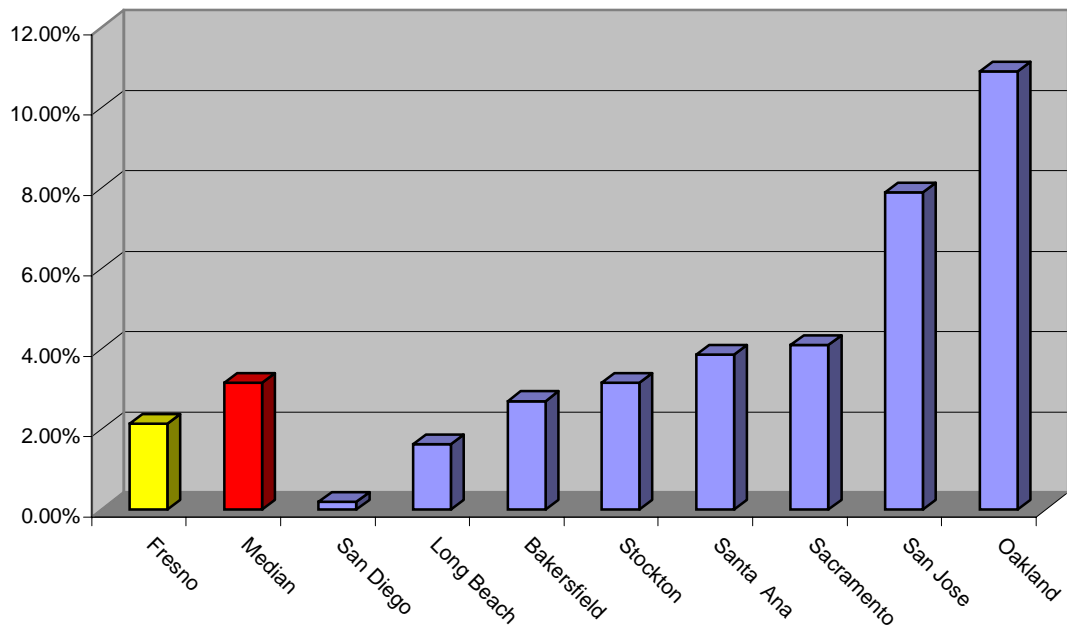
Variations in FTEs and/or expenditures in the City Manager's Office may also result from the following programs:

- Police Review Board
- Ethics Commission
- ADA Compliance
- Intergovernmental Relations
- Cultural Affairs
- Equal Employment Opportunity
- Media Relations
- Contract Compliance
- Budget Office
- Civil Service Commission

**City Manager's Office Expenditures per Capita  
(FY03 Budgets)  
Graph No. 57**



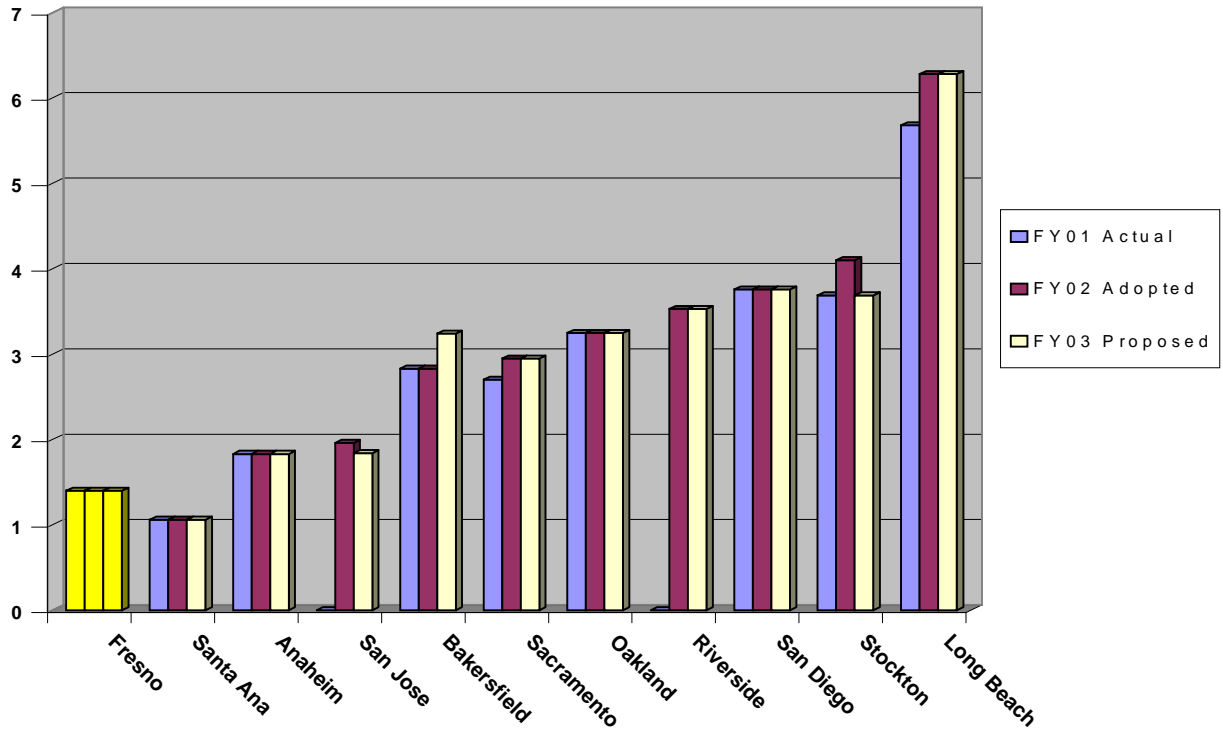
**City Manager's Office Expenditures as Percent of  
General Government Expenditures  
(Source: FY03 Budgets)  
Graph No. 58**



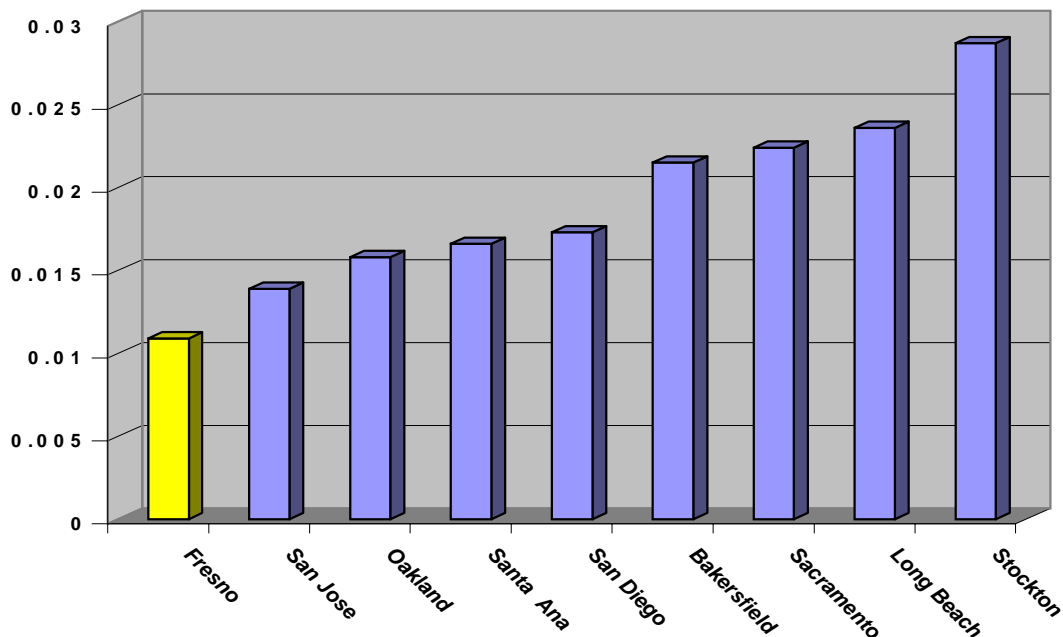
**City Clerk's Office**

Fresno's City Clerk's Office has lower expenditures and FTEs due to the mix of services provided. Fresno defines The City Clerk's responsibilities more narrowly than most other cities. Variations in FTEs and/or expenditures result from the provision of the following services: Records Management, Microfilm, Community Affairs Cable Programming, Printing and Distribution.

**City Clerk's Office FTEs per Capita (FY03 Budgets)**  
Graph No. 59



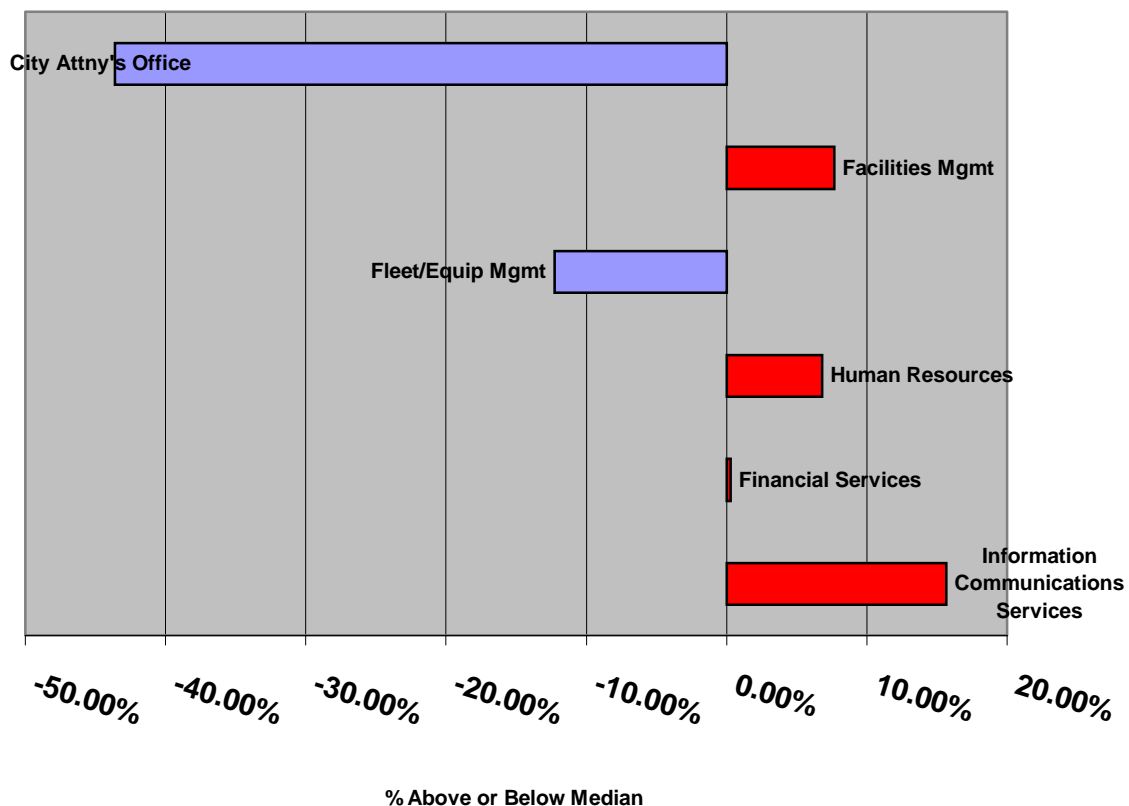
**City Clerk's Office Expenditures as % of General Government Expenditures (FY03 Budgets)**  
Graph No. 60



## **INTERNAL SERVICE FUND DEPARTMENTS – OVERVIEW**

Internal Service Fund Departments (ISFs) are those central service departments that directly charge their services to other city departments, (both general funded and enterprise funded), through a process known as Interdepartmental or “I.D.” charges established through the budget process. The ISFs within the City of Fresno cover more areas than is generally the case in our peer cities. Considerable effort was spent to try to standardize for these activities in comparing Fresno with other Cities. A number of problems arise when one gets to this level of detail. For example, “risk management”, which includes liability claims and workers compensation claims, is in the Human Resources Department in the City of Fresno. In other Cities this function can be found in the City Manager’s Office, the City Attorney’s Office or the Finance Department. Caution is appropriate in doing any direct comparisons on ISFs without further investigation.

**INTERDEPARTMENTAL SERVICE FUND EXPENDITURES  
PER CAPITA  
Graph No. 61**

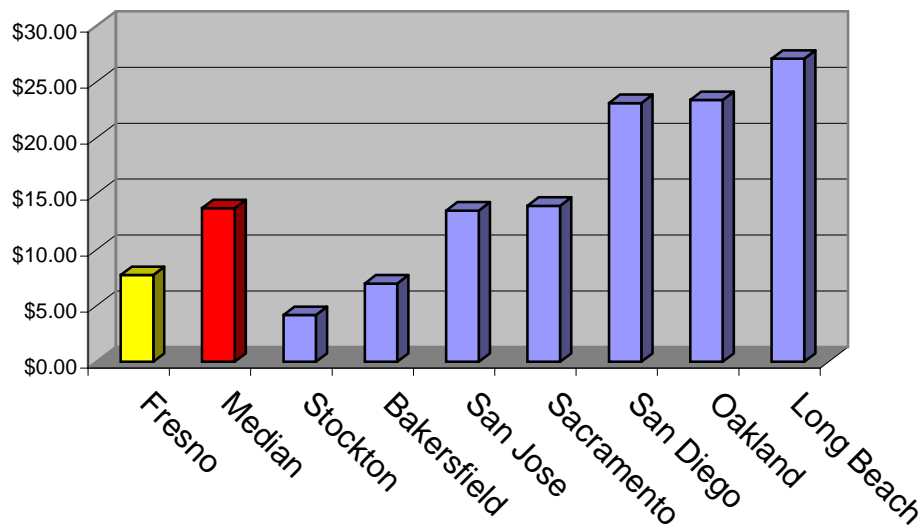


Similar observations are applicable to the comparison of FTEs per capita for the ISF departments. The variation in comparisons to the median is a factor not only of where certain functions are performed but also of the mix of enterprise departments within the City of Fresno compared to its peers. Rather than explain these variances here, they will be addressed below on an ISF department-by-department basis.

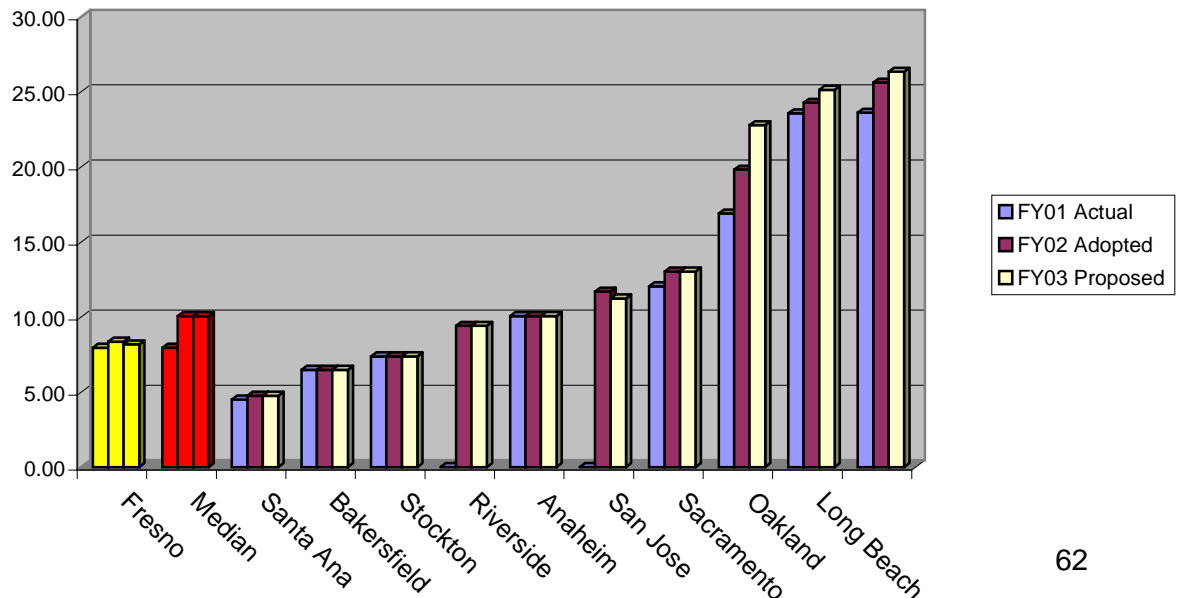
**City Attorney's Office**

City Attorney offices vary greatly in peer cities in duties and how they bill charges. For example, in some of the peer cities, Risk Management is included in the City Attorney's Office, which is not the case in Fresno. It is also the case in Fresno that not all City Attorney costs are captured since some departments are directly billed for outsourced legal work. A rough analysis shows that even if some of these variations are accounted for, the City Attorney's Office appears to cost less per capita than its peers, attributable in part to lower hourly legal rates in Fresno. However, the amount of legal services billed directly to Departments is significant in Fresno, and a more in-depth analysis is required before conclusions can be drawn.

**City Attorney's Office Expenditures Per Capita**  
(Source: FY03 Budgets)  
Graph No. 62



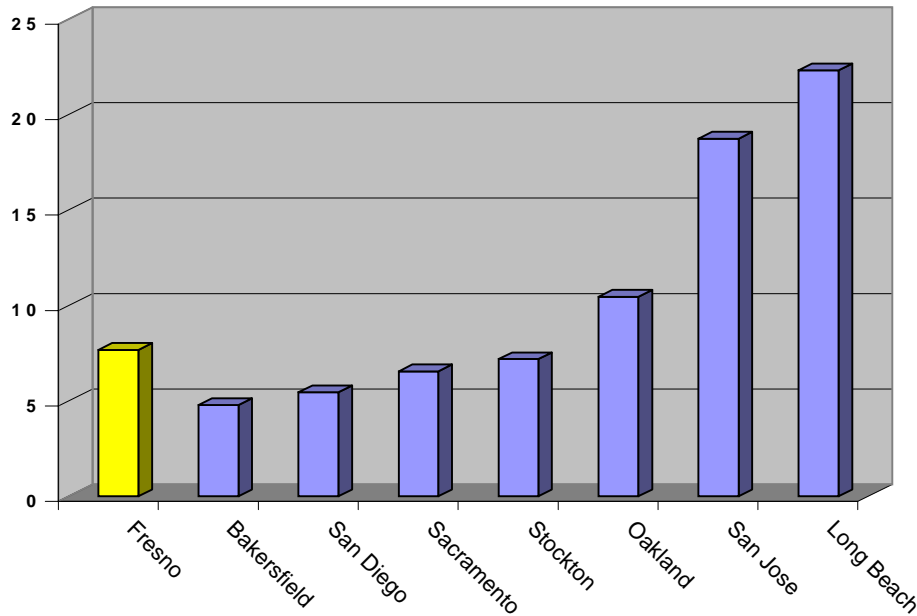
**City Attorney's Office FTEs Per Capita**  
(Source: FY03 Budgets)  
Graph No. 63



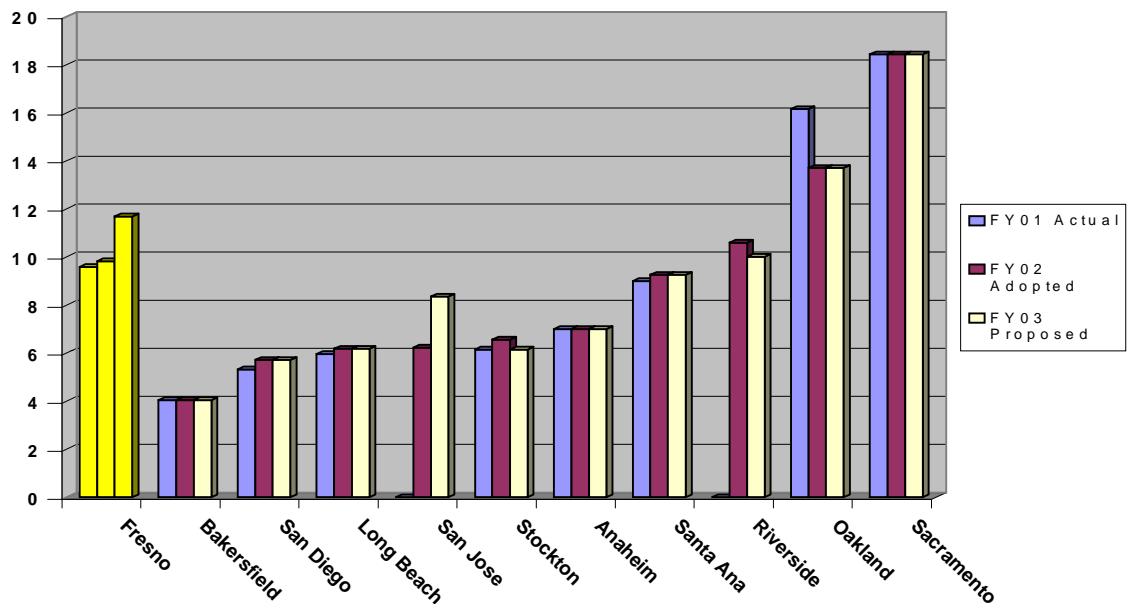
## **Human Resources**

Fresno's Personnel/Human Resources FTEs are higher than many peer cities due to the range of services provided. For example, risk management is included in Human Resources, whereas most cities account for this function in the City Attorney's Office. Despite this, Human Resources expenditures and FTEs are at approximately the midpoint.

**Human Resources Expenditures per Capita  
(FY03 Budgets)  
Graph No. 64**

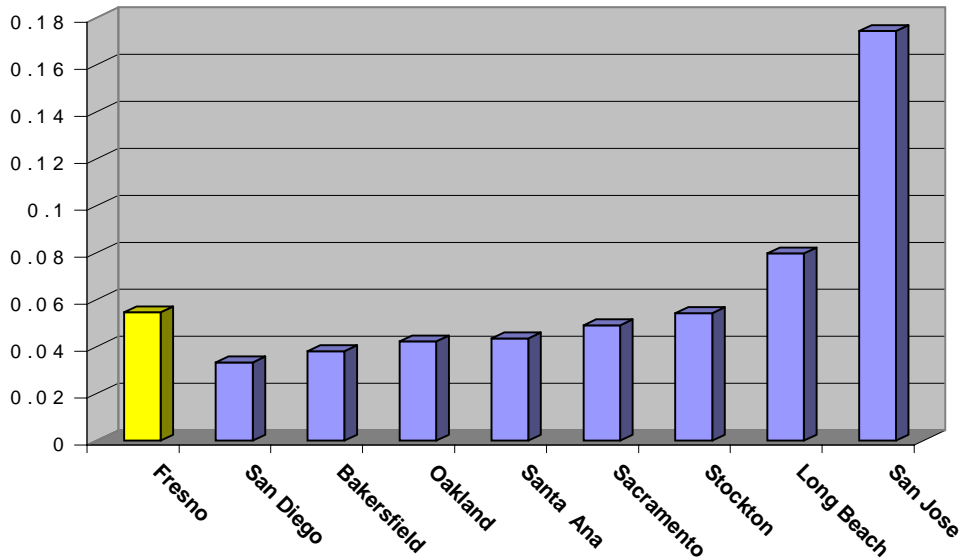


**Human Resources FTEs per Capita (FY03 Budgets)  
Graph No. 65**





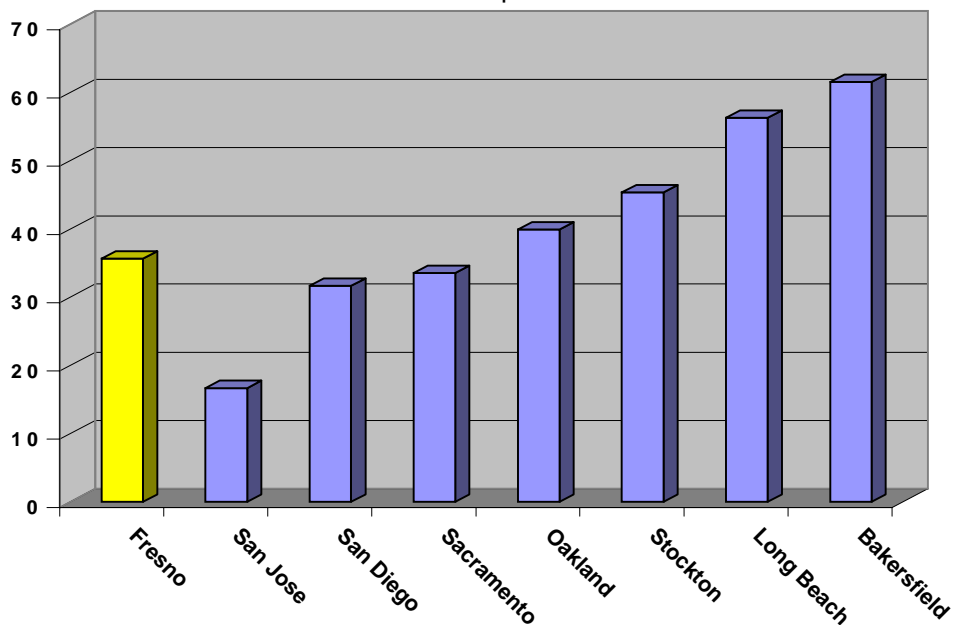
**Human Resources Expenditures as % of General  
Government Expenditures (FY03 Budgets)  
Graph No. 66**



### **Fleet/Equipment Maintenance**

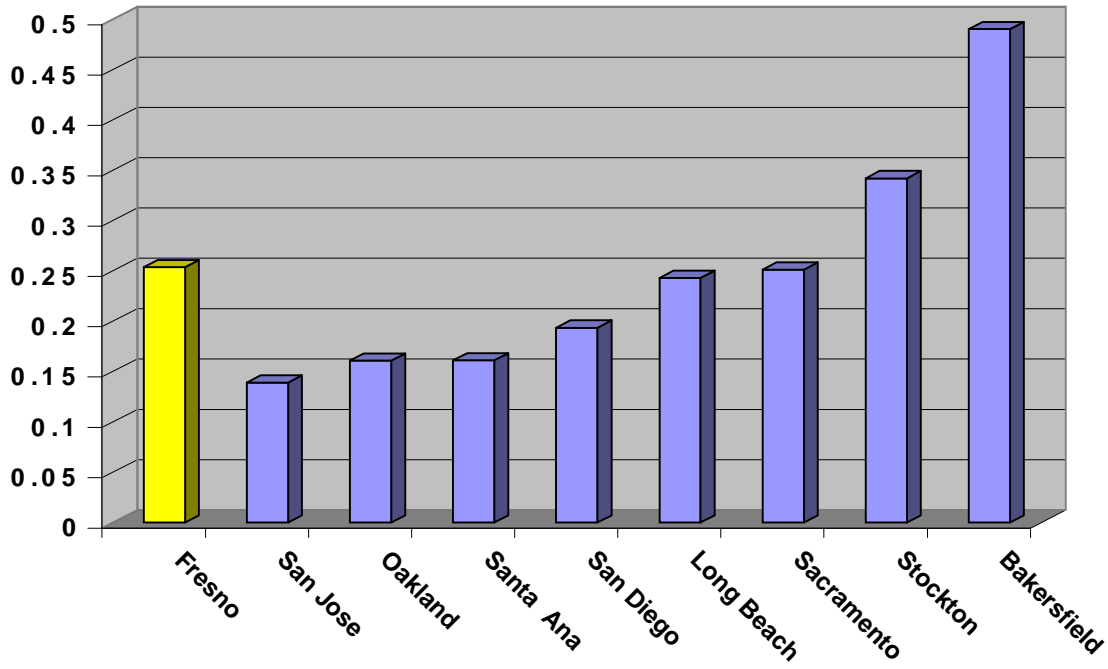
Fresno ranks in the middle of the peer cities for Fleet and Equipment Maintenance, despite the fact that Fresno Fleet provides maintenance services to two large enterprise operations not found in every City – Solid Waste collection and bus services. The Task Force considers this to be one of the most efficiently run operations in the City (See Best Practices Section.)

**Fleet/Equipment Maintenance Expenditures per Capita  
(FY03 Budgets)  
Graph No. 67**

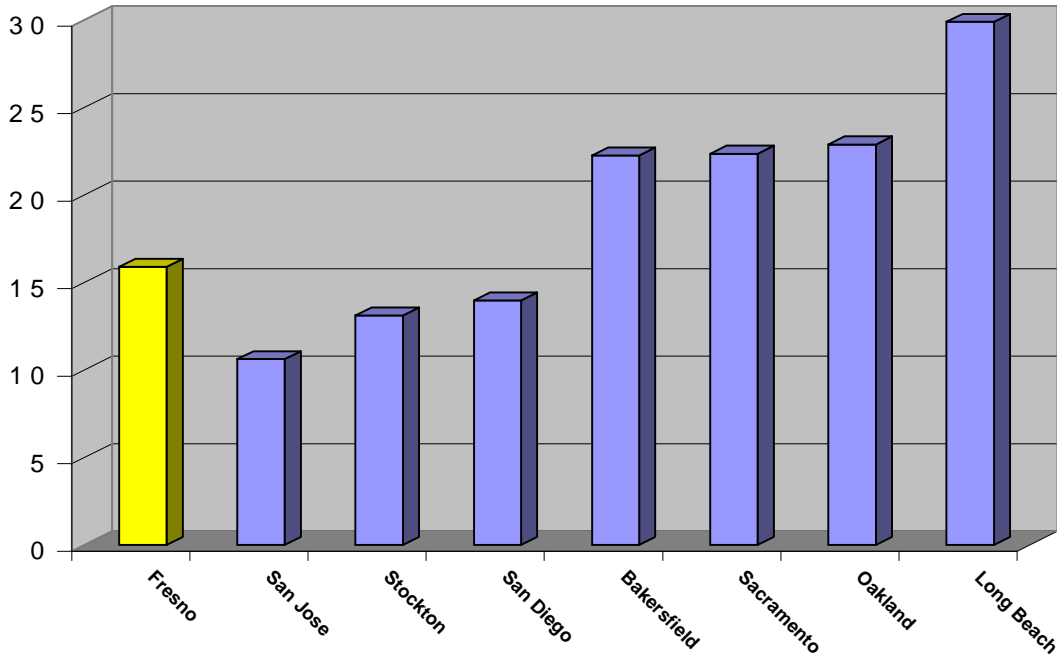


## MEETING THE CHALLENGE

**Fleet/Equipment Maintenance Expenditures as % of General  
Government Expenditures (FY03 Budgets)  
Graph No. 68**



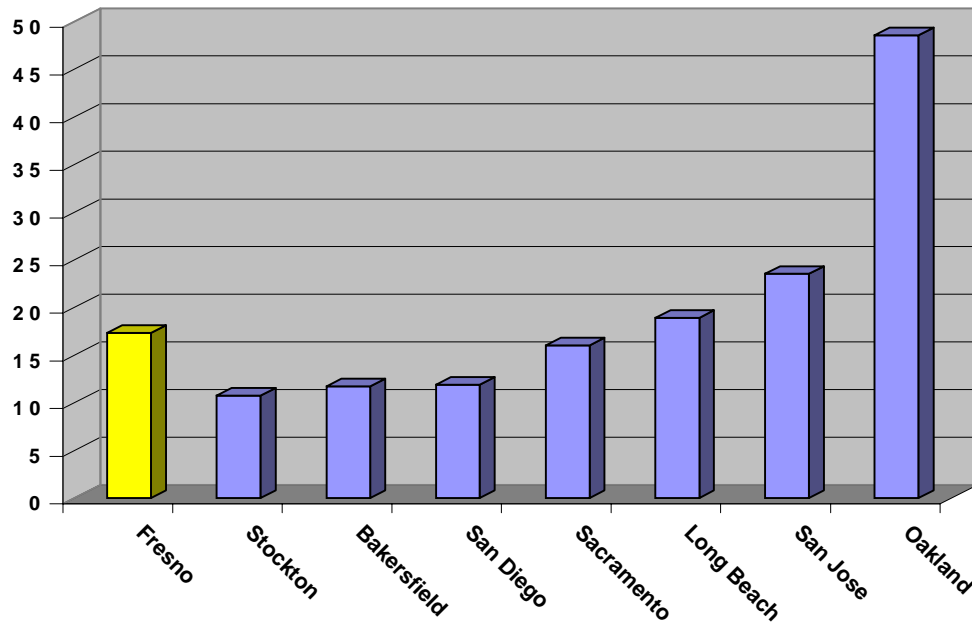
**Fleet/Equipment Maintenance FTEs per Capital  
(FY03 Budgets)  
Graph No. 69**



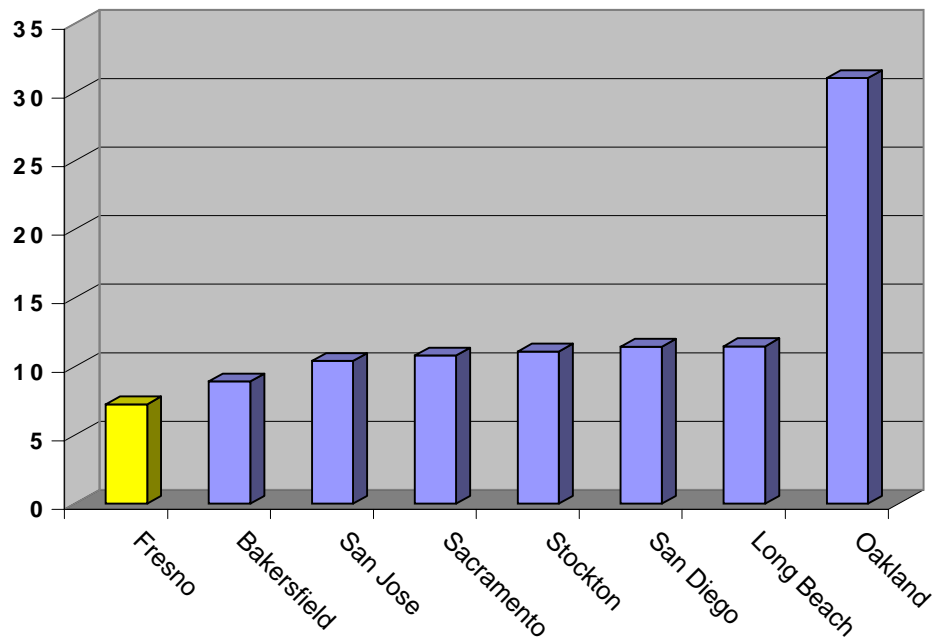
**Facilities Management**

Facilities Management, which in Fresno's case includes the Municipal Services Center, (not included in most other cities), is approximately at the median in expenditures and well below the median in FTEs.

**Facilities Management Expenditures per Capita  
(FY03 Budgets)  
Graph No. 70**



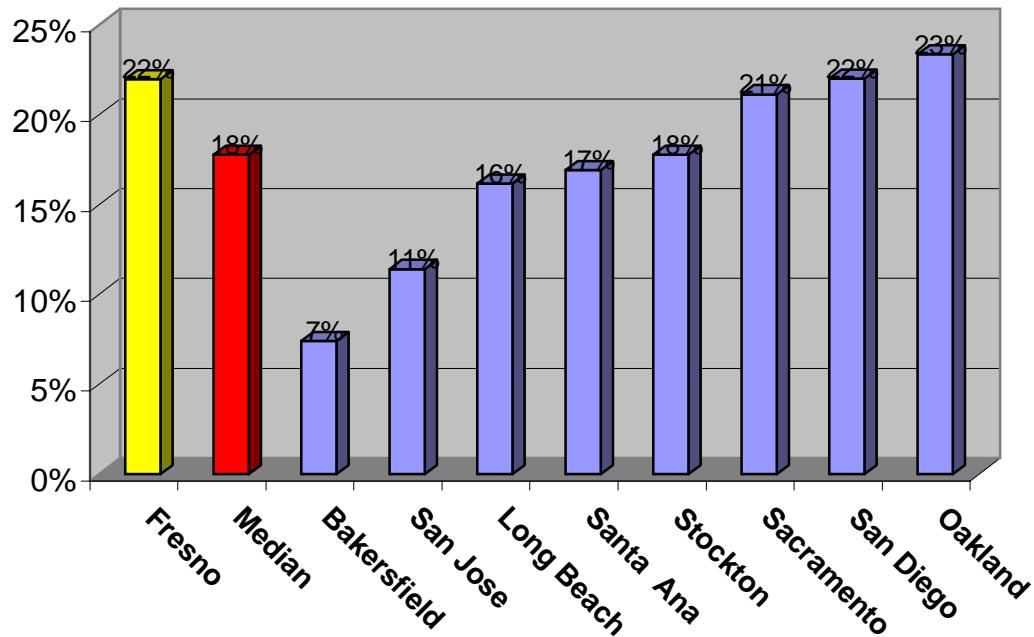
**Facilities Management FTEs per Capita (FY03 Budgets)  
Graph No. 71**



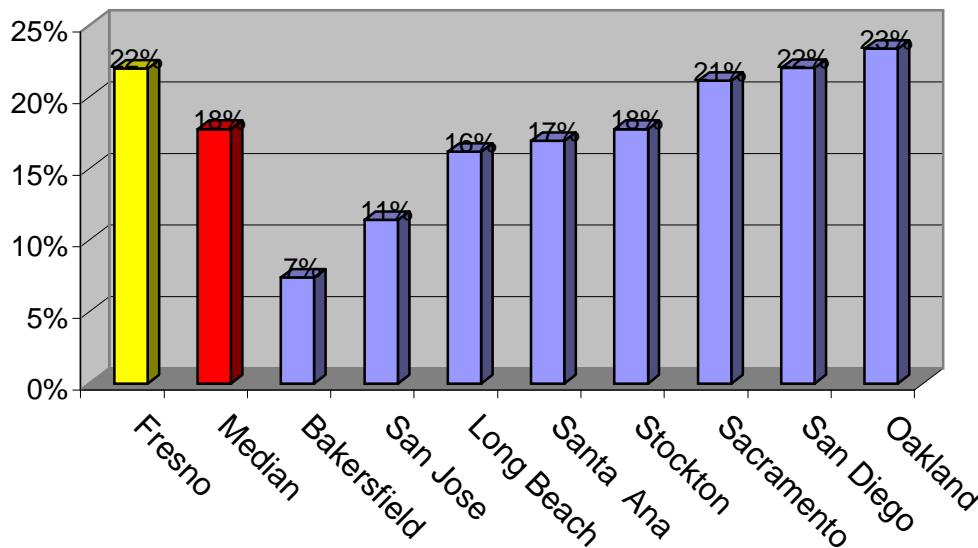
**Financial Services Department**

The Financial Services Department is above the median in expenditures and FTEs per capita. This is because more than half the expenditures and FTEs in the Finance Department are for “Utility Billing Services”, an activity performed directly in the Utility Department in most cities, and outsourced in some cities. The Finance Department is currently evaluating the possibility of outsourcing this work. (See Recommendations Section, pages 104-111.)

**Financial Services Expenditures Per Capita  
(Source: FY03 Budgets)  
Graph No. 72**

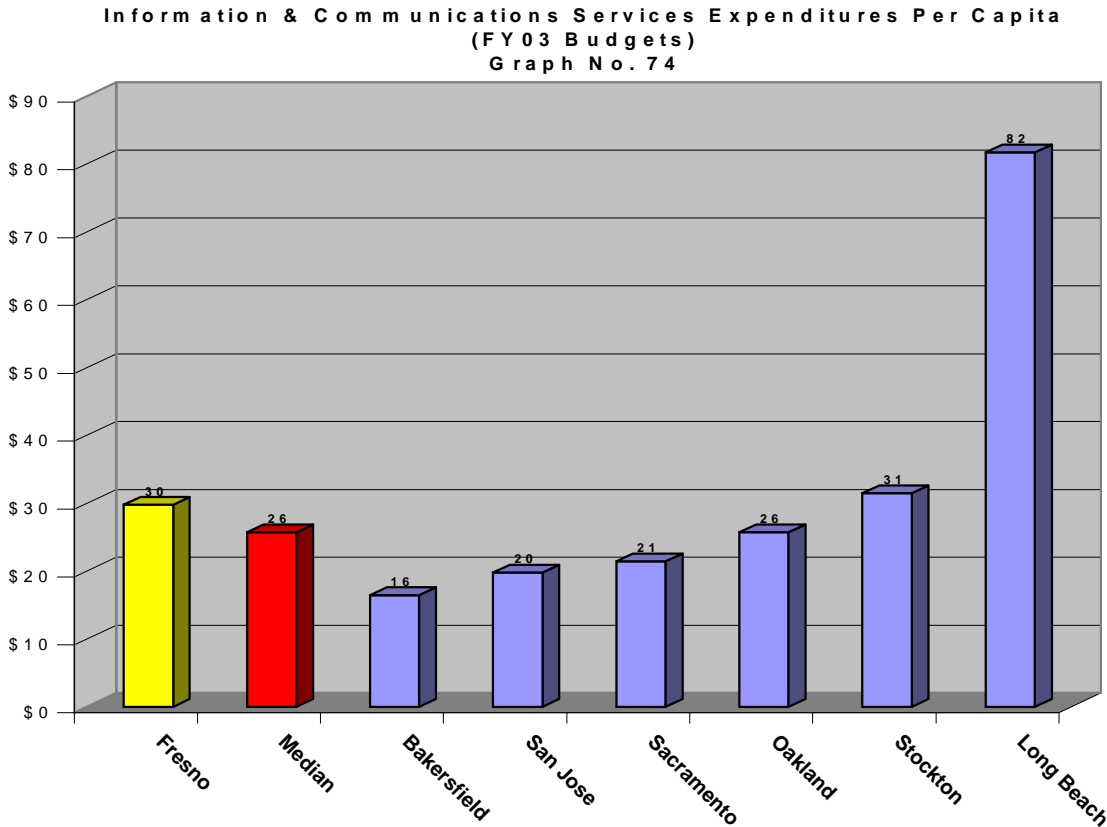


**Financial Services Expenditures as % of General Government Central  
Services(Source: FY03 Budgets)  
Graph No. 73**



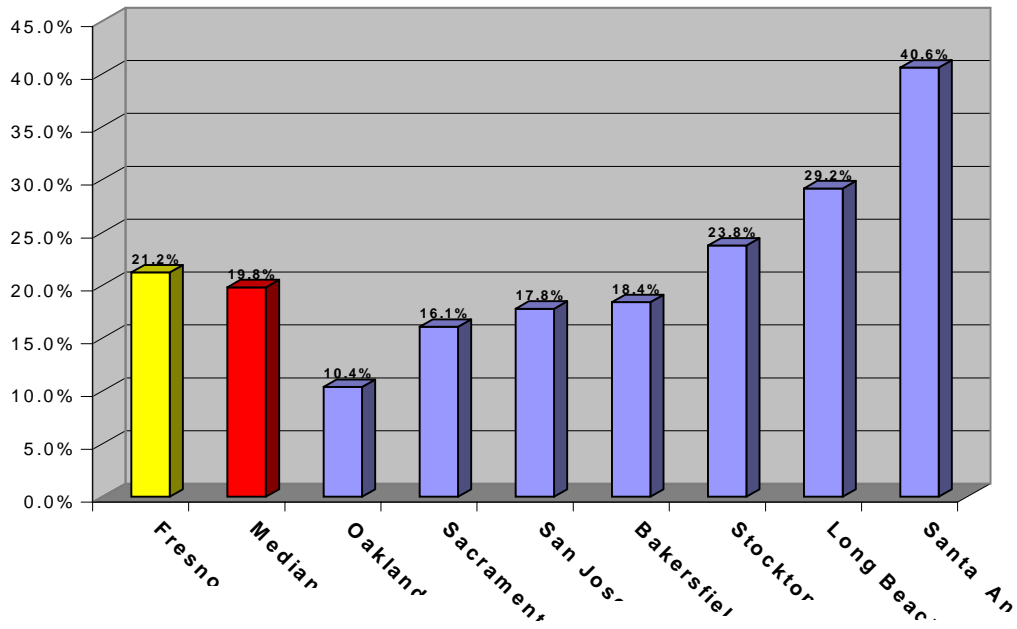
**Information & Communication Services**

Of all the ISF departments, the Information and Communications Department elicited the most interest for the Task Force. For one thing, it exceeds the peer city expenditures median by a larger percentage than any other department, despite the fact that there are several pockets of IT within City Government that are not accounted for in the IT department (a similar comment applies to FTEs per capita). This may be in part because San Diego, which outsources its IT work, appears not to have included its outsourcing costs in its reported numbers, thereby skewing the median. However, there are other issues of concern. Although the Task Force did not do customer surveys, there is significant anecdotal information suggesting dissatisfaction with service levels from this Department. In addition, the Department appears to lag in the establishment of eBusiness capabilities. All of this may be the result of the fact that the Department director position was vacant for almost 18 months. The Task Force did not reach any definitive conclusions, but feels that this is a high-priority area for further, in-depth benchmarking and analysis. (See Recommendations Section, pages 104-111.)

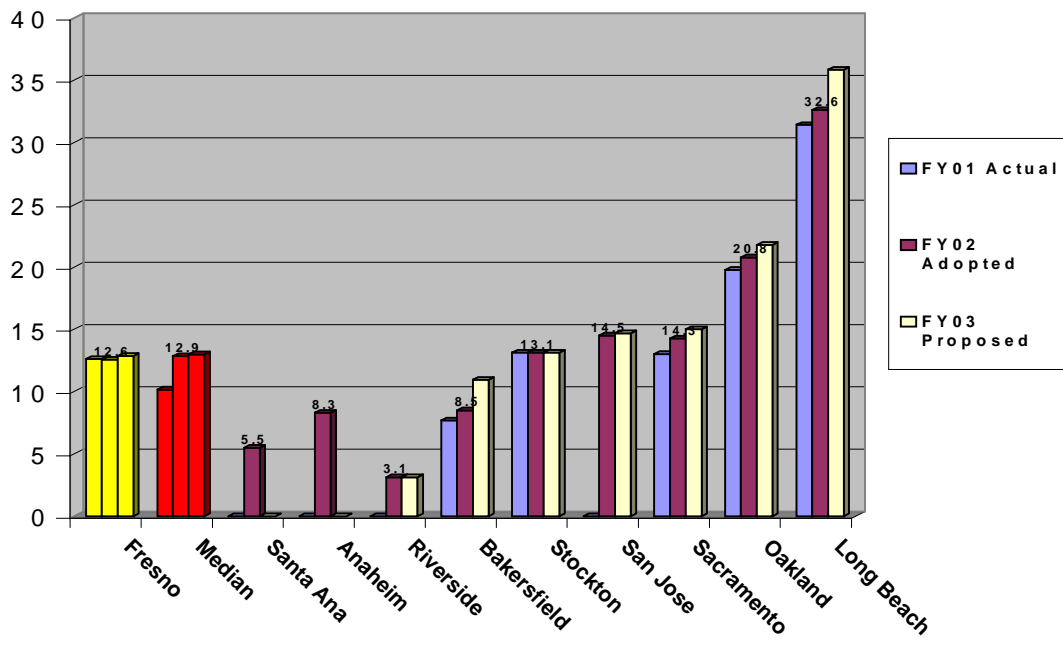


## MEETING THE CHALLENGE

**Information & Communication Services Expenditures as % of General  
Government Central Services  
(FY03 Budgets)  
Graph No. 75**



**Information & Communications Services FTEs per 000,000  
(FY03 Budgets)  
Graph No. 76**



## **ENTERPRISE FUNDS – OVERVIEW**

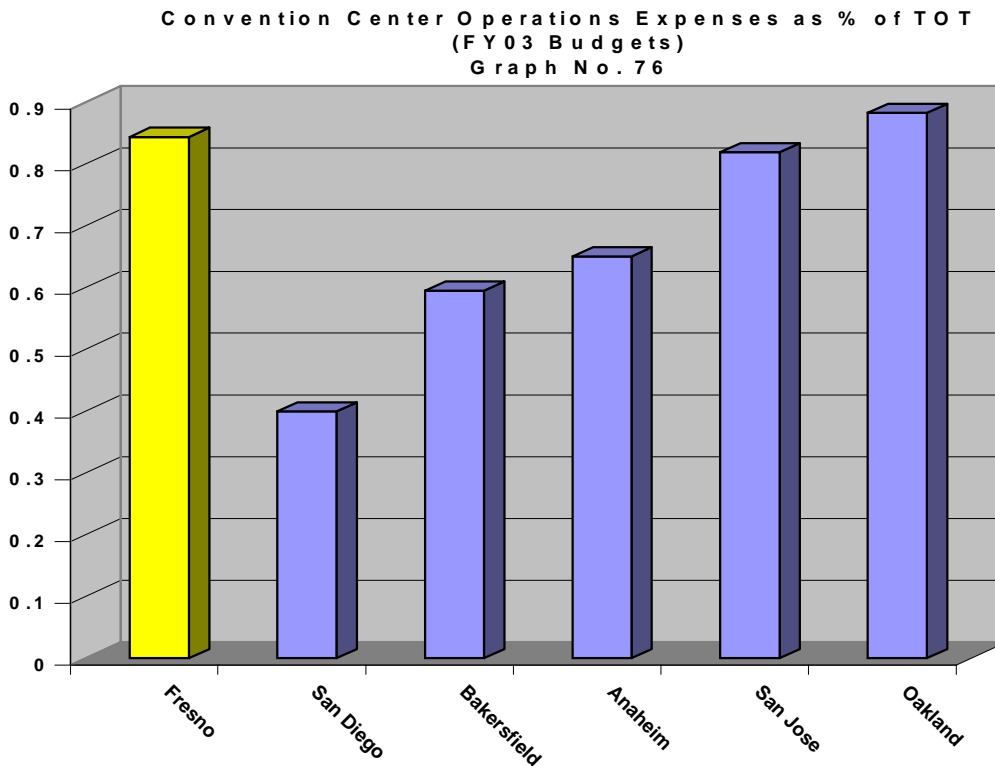
As noted earlier in this report, the number of Enterprise Funds a city has varies greatly, as does the organization of those Enterprise Departments. Enterprise Departments are supposed to be run like a business, and are generally considered self-supporting from user fees and other financing mechanisms. Given the wide variety of Enterprise approaches, it is probably best to compare the fees charged for those services and examine whether any subsidies are required.

### **Airport**

Fresno's commercial airport, Fresno Yosemite International, has long been looked at as an economic development tool. It has been improving its infrastructure in anticipation of new airline activities. Partly to cover these capital improvements and partly as a result of 9/11, airport fees have been increasing. No comparisons were done at this time.

### **Convention Center**

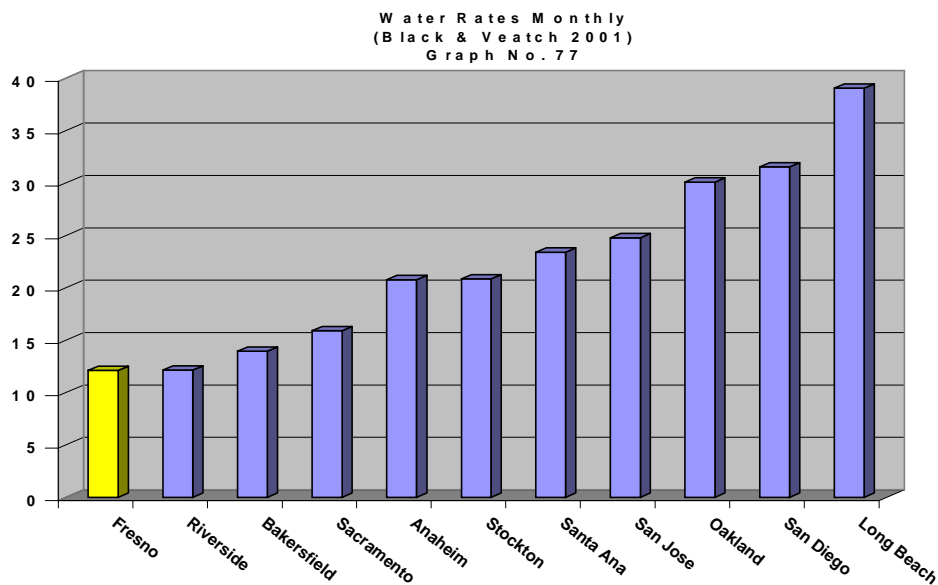
Fresno's Convention Center complex, like most convention centers and its related Convention and Visitors Bureau, receives a public subsidy. The main source of General Fund revenue is the Transient Occupancy Tax (TOT) or room tax on hotel and motel rooms. Rental income of facilities is the main source of Enterprise Fund income. One way to measure relative efficiency of convention centers is to compare the percent of the TOT collected to the total subsidy. As can be seen below, Fresno has a higher per capita subsidy than its peers.



Each convention center is unique and it is a dynamic and changing environment. In Fresno, there is a separate entity, the Convention and Visitor's Bureau, charged with marketing the Center for conventions. This is largely funded by the Convention Center budget. Most Convention Centers lose money – it is the amount of the subsidy one tries to manage. In Fresno's case, the subsidy is significant, approximately \$6 million of General Funds annually. The Task Force feels this subsidy should be significantly reduced. (See Recommendations Section, pages 104-111.)

## **Public Utilities**

Public Utilities charges fees for water, wastewater and solid waste. A peer comparison of these fees follows\*:

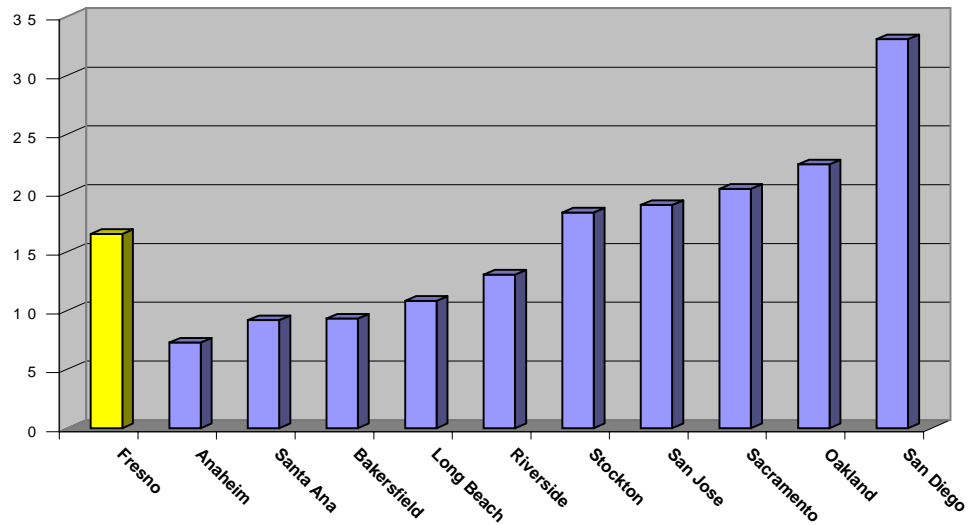


*\*The Black & Veatch comparisons are commonly used for “benchmarking” purposes, but the variety of rates and rate structures across cities makes these comparisons a starting point for further analysis.*

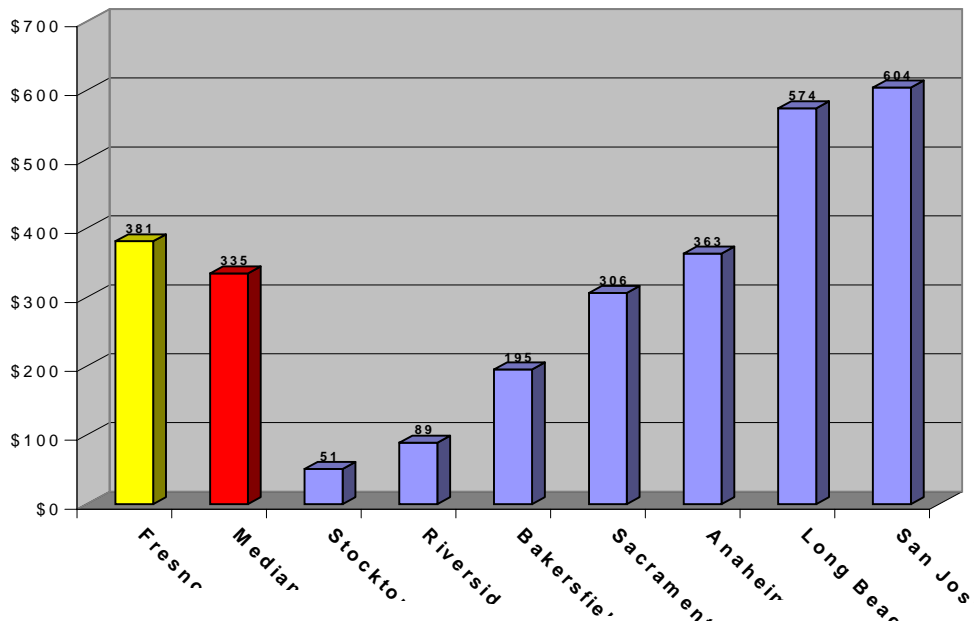


## MEETING THE CHALLENGE

**Sewer Rates / Monthly**  
(Black & Veatch 2000)  
Graph No. 78



**Solid Waste Operating Cost per Capita**  
(State Cities Report & FY01 CAFRs)  
Graph No. 79



*Solid waste rates vary too much to do meaningful comparisons. This information in the CAFRs and the State Report is of limited use for benchmarking.*

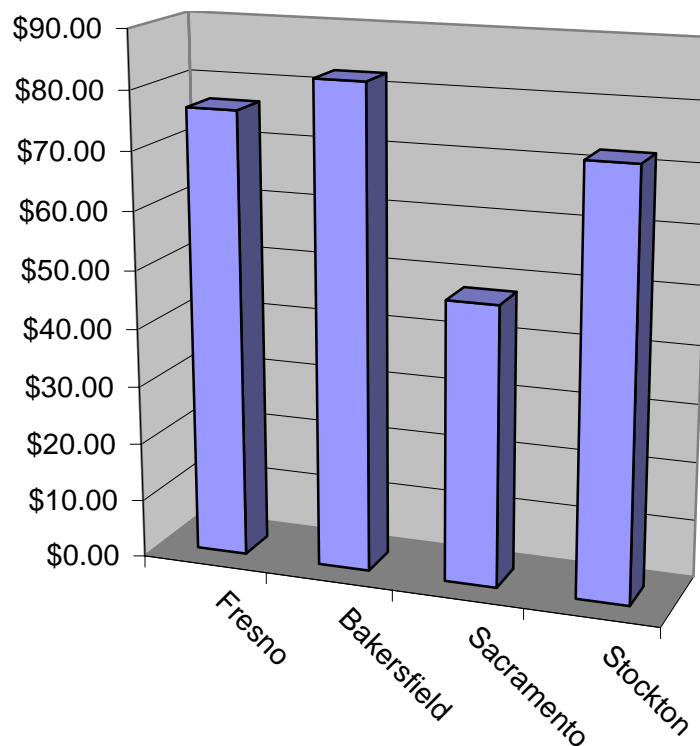
As can be seen in the preceding graphs, Fresno's water rates are the lowest among the peer cities and sewer rates are near the median. Solid waste rates, on the other hand, are 14% above the median, likely a result of the fact that many cities do not handle solid waste in-house. Because of the different sources of utilities and the variety of rates and structures, the preceding information should be viewed as inconclusive indicators. The true test of efficiency of utility operations can only be determined by a thorough evaluation of the services provided by city organizations compared with the cost delivery of those same services by the private sector. (See Recommendations Section, pages 104-111.)

### **Transit**

Fresno Area Transit (FAX), the public transportation system, operates like most transit systems, with major subsidies and fares. Few of our peer cities run transit systems, which are more often regional in nature.

A review of fares for some peers show Fresno is reasonable, but this does not take into account subsidy issues (see below). During the City's recent Contingency Planning exercise, FAX presented one of the more innovative proposals to dramatically cut costs through alternative service delivery models. The Task Force believes this is worth further review and discussion. (See Recommendations Section, pages 104-111.)

**Transit Operating Costs per Hour per Bus**  
**Graph No. 80**

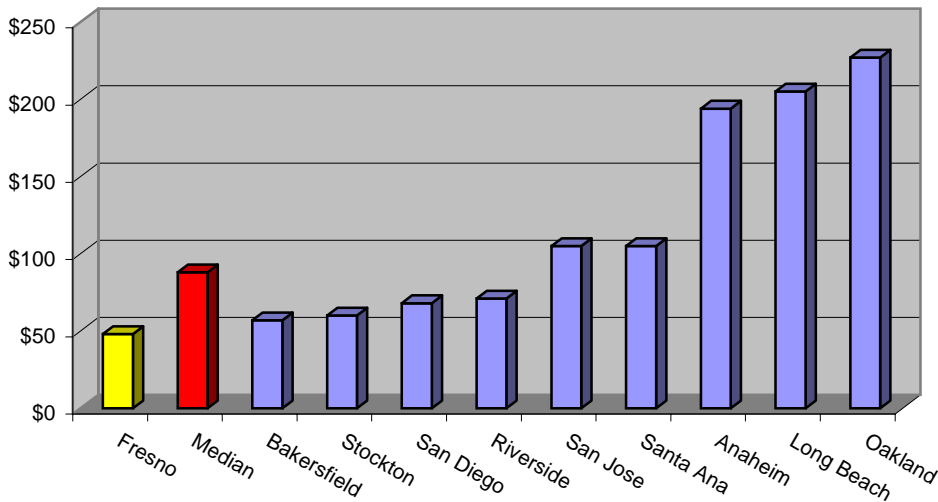


**Economic Development, Housing, Development and Related Activities**

As difficult as it is to compare city functions, one of the most difficult areas on which to get hard data is economic development. Most peer cities combine housing and economic development activities; many combine redevelopment agency activities, and still others involve their Enterprise departments, particularly in communities with harbors. The number of alternative models is large, but one thing seems clear from the data. The City of Fresno spends significantly less per capita than the median, and given the extent of the City's unemployment problem, this appears to be an area that is greatly underfunded.

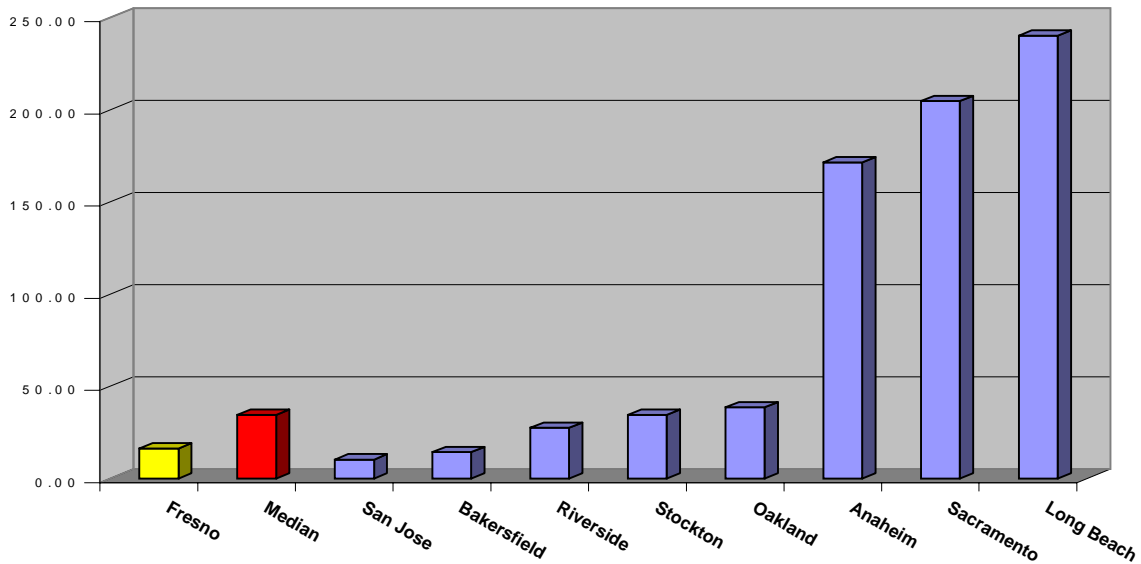
One data source which attempted to standardize economic development expenditures per capita was the 1999 State Controller Cities Report. The report addresses a category called Economic Development that includes Redevelopment Agency expenditures. A review of budgets of Housing and Economic Development Departments, not corrected to standardize for items like code enforcement (found in the City of Fresno, but not in all other Cities) still shows Fresno below the median.

**Economic Development Expenditures per Capita  
(Source: 1999 State Report)  
Graph No. 81**



## MEETING THE CHALLENGE

Housing Expenditures per Capita  
(Source: FY 03 Budgets)  
Graph No. 82



Variations in FTEs and/or expenditures can be explained by the differences in programs offered, such as:

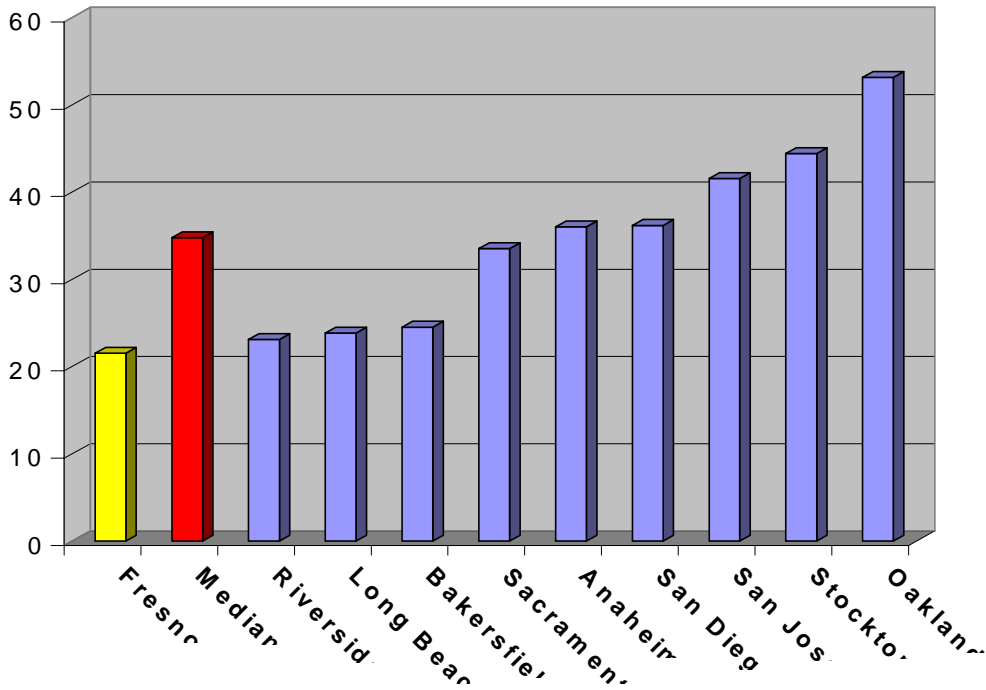
- Redevelopment
- Housing Authority
- Workforce Development
- Economic Development
- Code Enforcement
- Graffiti Abatement
- Street Sweeping
- Litter Control

### Planning and Development

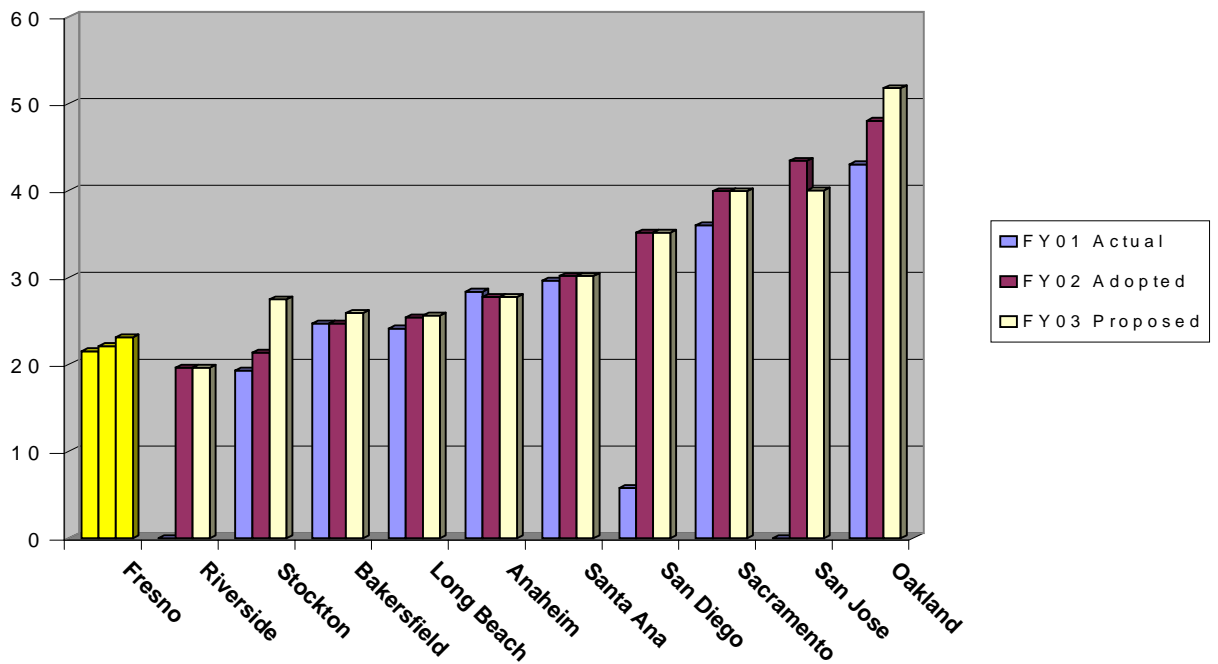
Another area involved with economic development, although it is set up as an Enterprise Fund in the City of Fresno, is the Planning and Development Department. A review of budgets for Planning and Development departments shows that Fresno's is below the median.

## MEETING THE CHALLENGE

**Planning & Development Expenditures per Capita**  
(Source: FY03 Budgets)  
Graph No. 83



**Planning & Development FTEs per Capita (FY03 Budgets)**  
Graph No. 84



Variations in FTEs and/or expenditures can be explained by the differences in programs offered, such as:

- Redevelopment
- Economic Development
- Building Inspection
- Planning and Zoning
- Housing and Community Development
- Code Enforcement

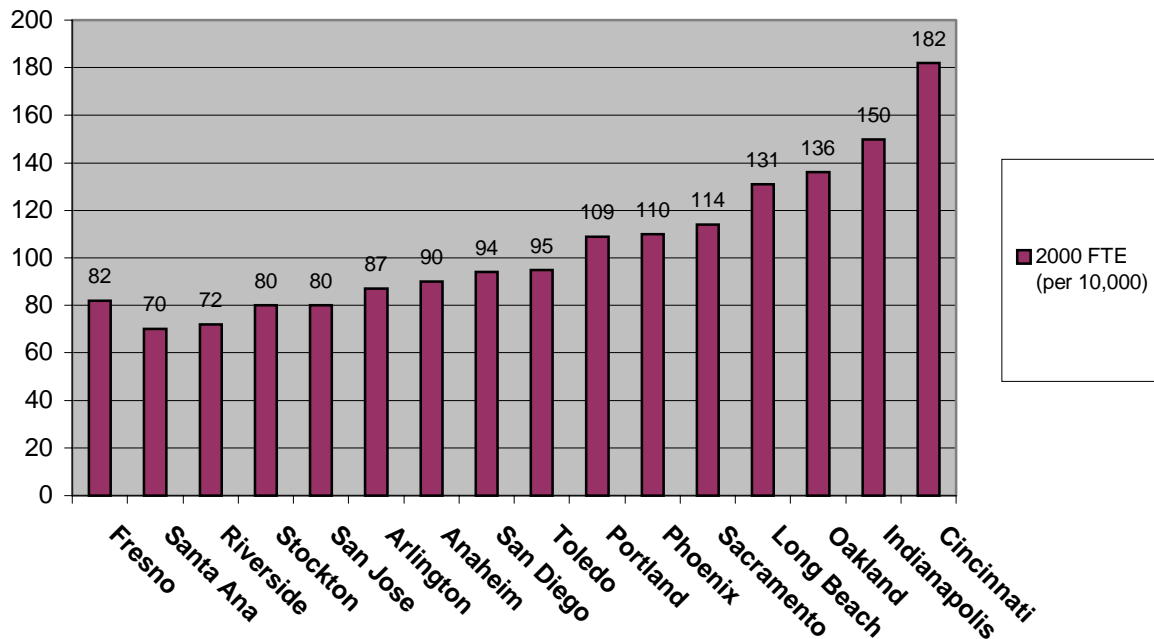
While these expenditures can be located in City budgets and compared (although some further analysis is necessary to take into account the factors noted above), there are a whole host of other players in each community that influence job creation, workforce training, housing costs and economic development. The City frequently is in joint partnership with these institutions, such as the County Economic Development Corporation, or works closely with major employers who are seeking infrastructure improvements on land they wish to develop. In addition, Enterprise Departments can play a significant role and need to be considered when one looks at all the resources available to improve the local economy.

### **Observations on Expenditures**

The discussion above, examining City of Fresno expenditures on a Citywide basis and on a department-by-department basis, shows that with very few exceptions Fresno is significantly below the median of peer cities in California on per capita expenditures. While some of this appears to be attributable to lower area costs per FTE, the Task Force concludes that other factors contribute to this general pattern: (a) Fresno does appear to be more efficient than its peers; (b) Fresno provides less service in some areas; and (c) Fresno has for years deferred infrastructure maintenance expenditures that will eventually have to be addressed. The areas where Fresno appears to have higher than median expenditures may be explained by more detailed review of each City's functions in that particular department. For example, a city with fleet services would have to have trash trucks and buses as part of their operation to be comparable to the City of Fresno. Since this is generally not the case, it is the existence of more Enterprise Departments in Fresno that is most likely the reason for the variation.

The following chart of City Government Employment and Payroll, taken from U.S. Census data, shows City Government staffing trends on a per capita basis between 1990 and 2000 in 16 U.S. cities, including our California Peer Cities and others selected because of their reputation for "Best Practices". What is interesting here is that even with the large number of Enterprise Departments within the City of Fresno, Fresno is below the median of these Cities, and among the lowest in per capita government employees.

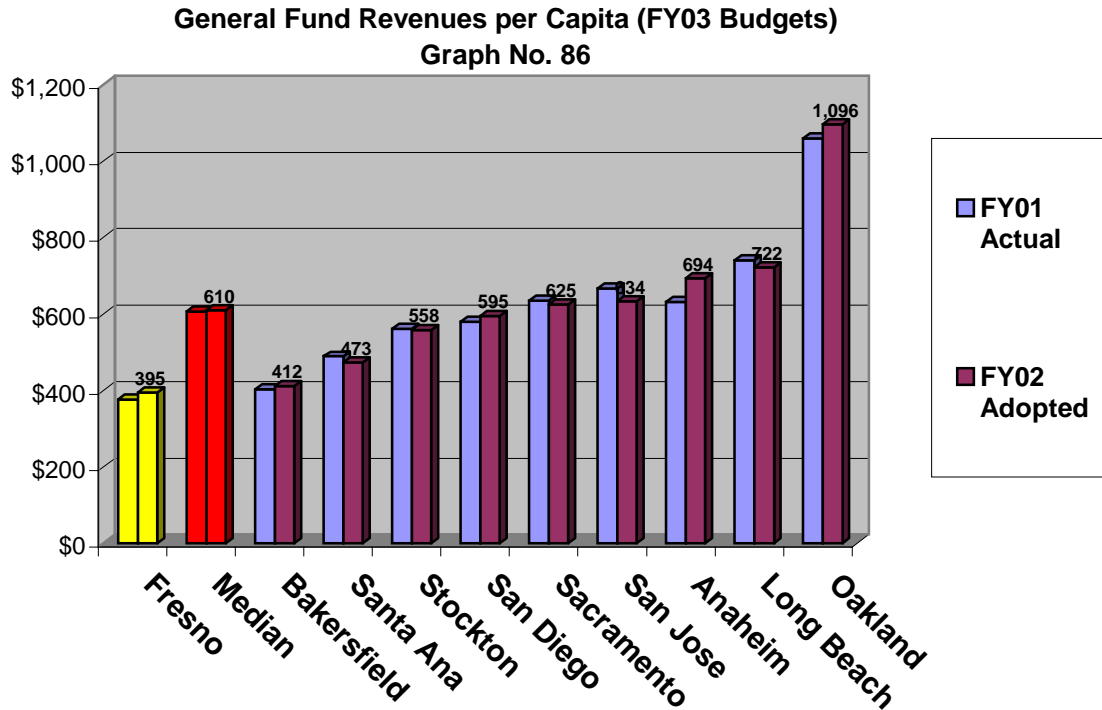
**City Government Employment and Payroll (City of San Diego Study)**  
**Graph No. 85**



## **REVENUE BENCHMARKS**

### **Overview**

Local governments are finding it increasingly more challenging to generate sufficient General Fund revenues to fulfill service obligations to its citizens. This is the case nationwide, given the increasing demand for public safety services in the aftermath of September 11. It is particularly true in California, which has a heavier load of State-imposed service requirements and a host of limitations on revenue-raising. Furthermore, it is pronouncedly so in Fresno, which has the lowest revenue base among its peers and some of the most challenging problems (particularly those that arise from its endemic unemployment). This section addresses revenue issues in greater depth.



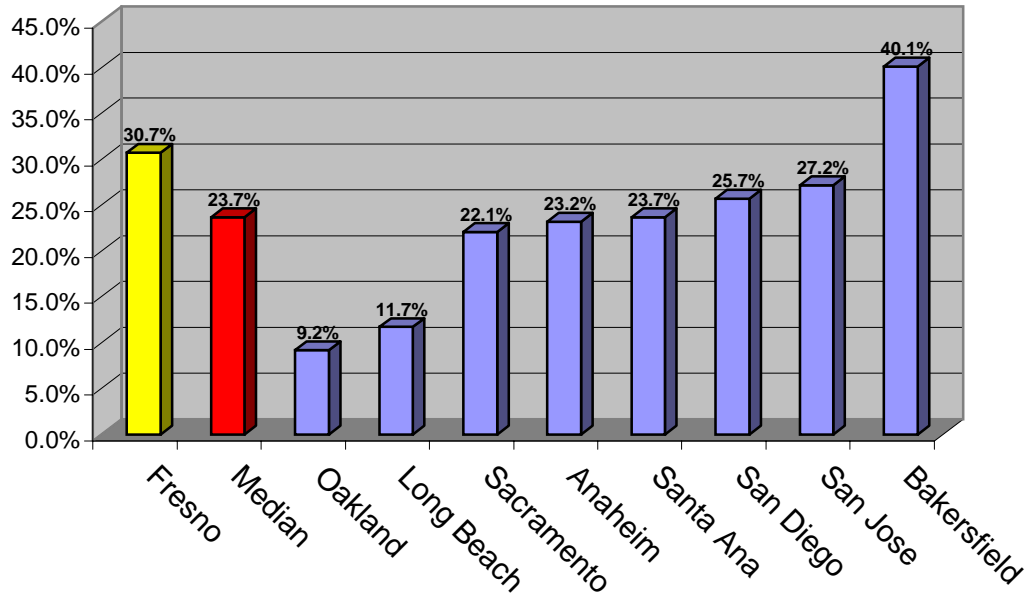
### **Source of Revenue**

The main sources of General Fund revenues are sales taxes (collected by the State and rebated to local governments), property taxes (collected by the County and rebated to local government), vehicle license fees (collected by the State and rebated to local governments), business taxes (collected by the City), fees for services (collected by the City), franchise fees (collected by the City from entities under a franchise agreement), and utility user taxes (collected by the utility and rebated to local government).

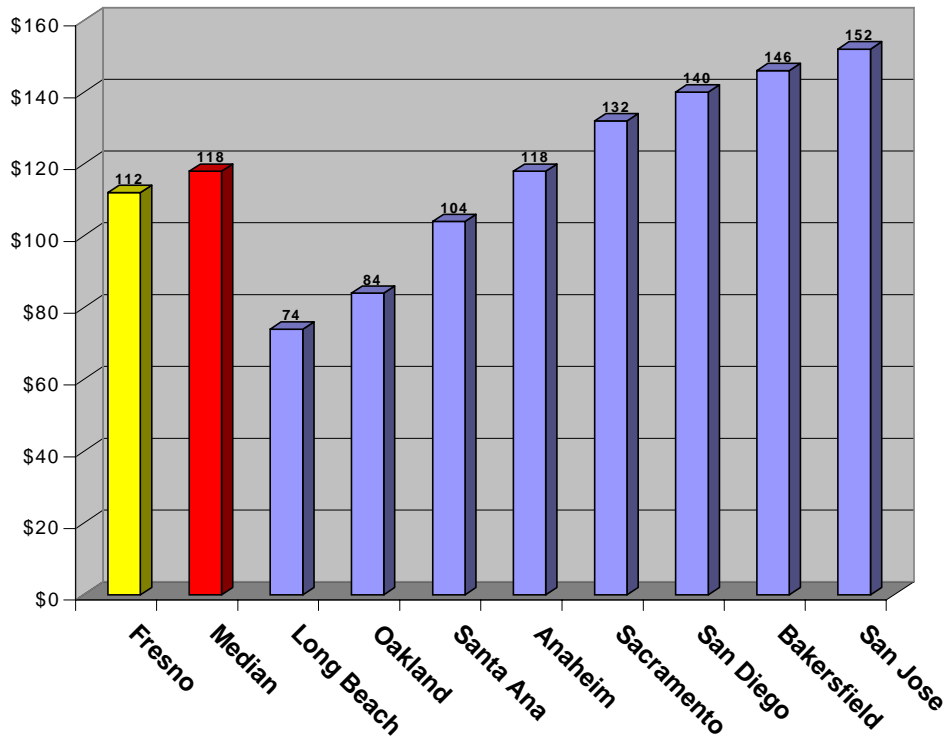
Fresno's largest source of General Fund revenue is sales tax. Fresno collects a higher percent of its General Fund revenue from sales taxes than the median of our peers. However, on a per capita basis Fresno collects slightly less than the median.



**% of General Fund Revenue from Sales Tax (City of San Diego Study)  
Graph No. 87**



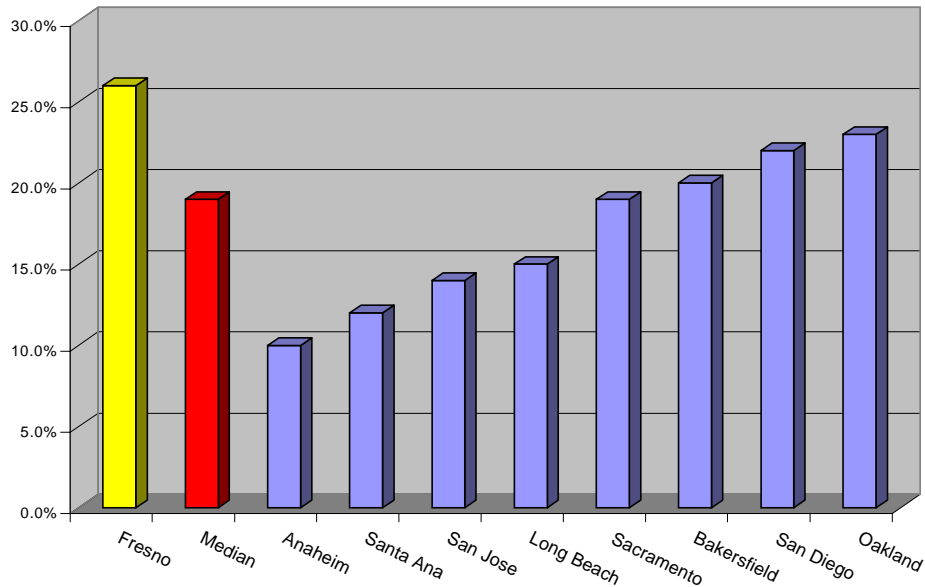
**Per Capita Sales Tax Revenue (City of San Diego Study)  
Graph No. 88**



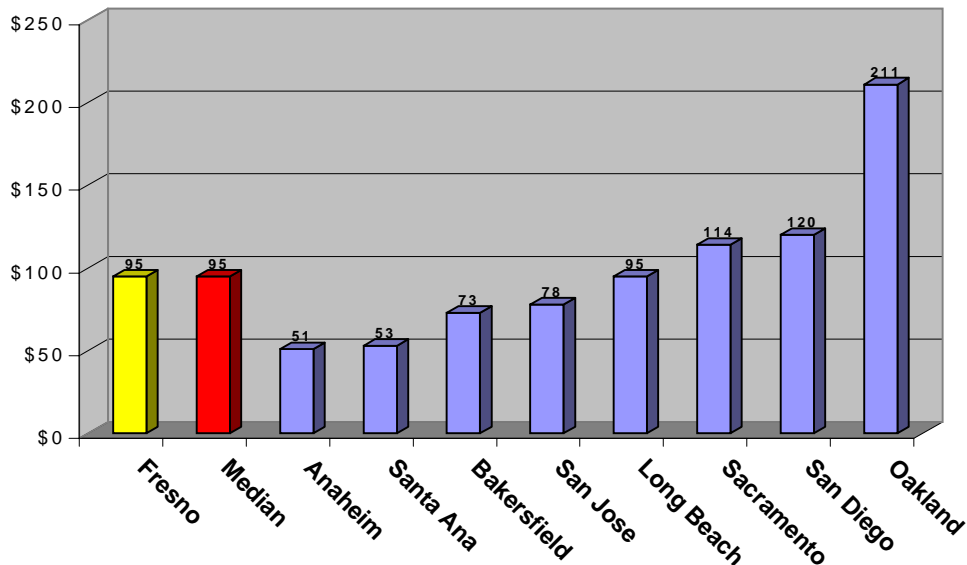
## MEETING THE CHALLENGE

Fresno's second largest revenue source is property tax. The amount of property tax the City receives is set by Prop. 13, and modified by a variety of annexation agreements with the County. In Redevelopment areas the property tax growth increment goes to the Redevelopment agency, which is run by the City Council. Generally, the City receives about 30% of the 1% paid by property owners. Fresno is more dependent on property tax revenue than any of peers as a percent of the General Fund. However, on a per capita basis Fresno is at the median of its peers.

**% of General Fund Revenue from Property Tax (City of San Diego)**  
Graph No. 89



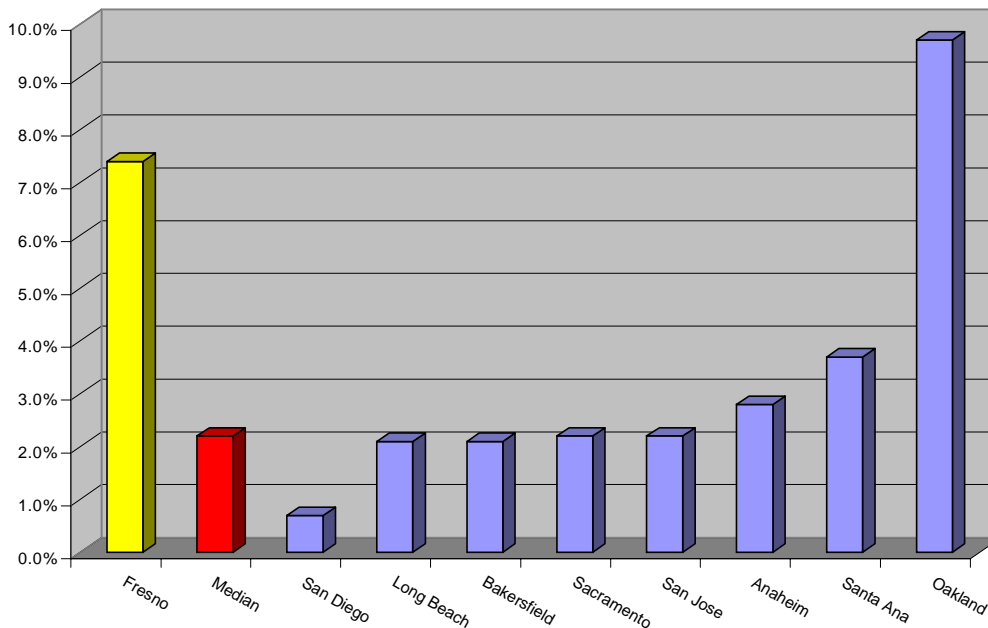
**Per Capita Property Tax Revenue (City of San Diego Study)**  
Graph No. 90



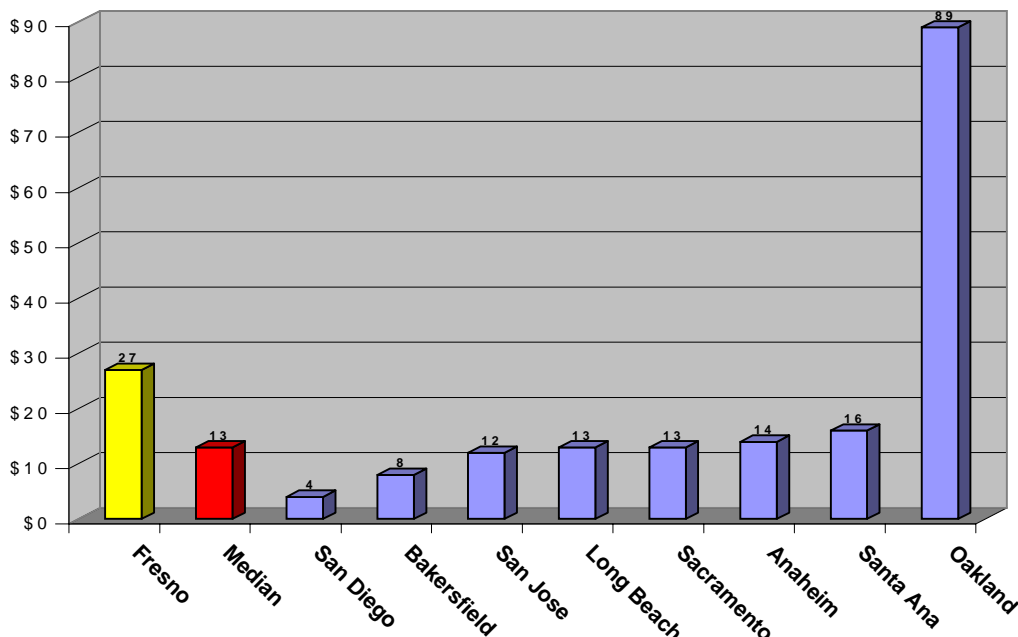
## MEETING THE CHALLENGE

Business taxes provide a larger percentage of General Fund revenue for Fresno than its peers, second only to Oakland. On a per capita basis, Fresno collects nearly double the median of business taxes, not a good thing for a city that desperately needs to create more jobs. The reader is cautioned, however, that direct business taxes are not the only tax burden paid by employers. To fully understand the total cost in taxes and fees paid by employers requires consideration of other taxes and fees, such as utility taxes, a complex analysis that the Task Force recommends be commissioned following the issuance of this report. (See Recommendations Section, pages 104-111.)

**% of General Fund Revenue from Business Tax (City of San Diego Study)**  
**Graph No. 91**

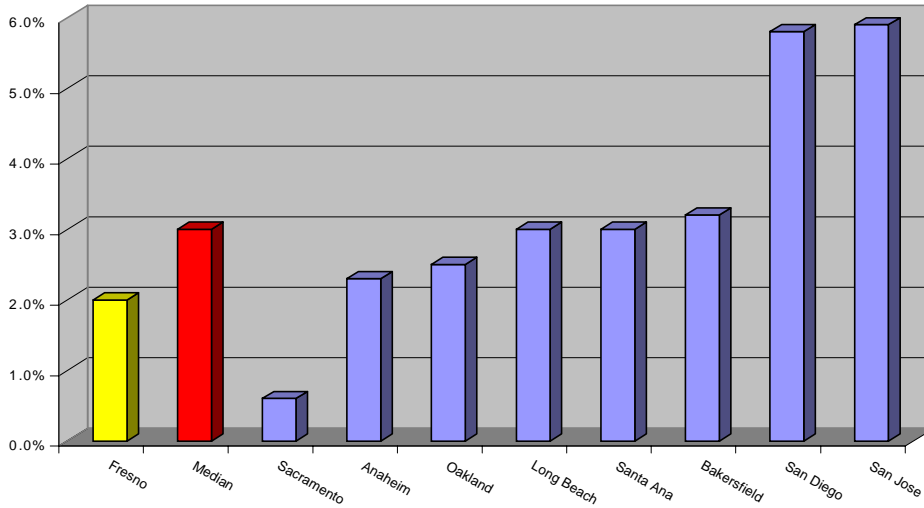


**Per capita Business Tax Revenue (City of San Diego Study)**  
**Graph No. 92**

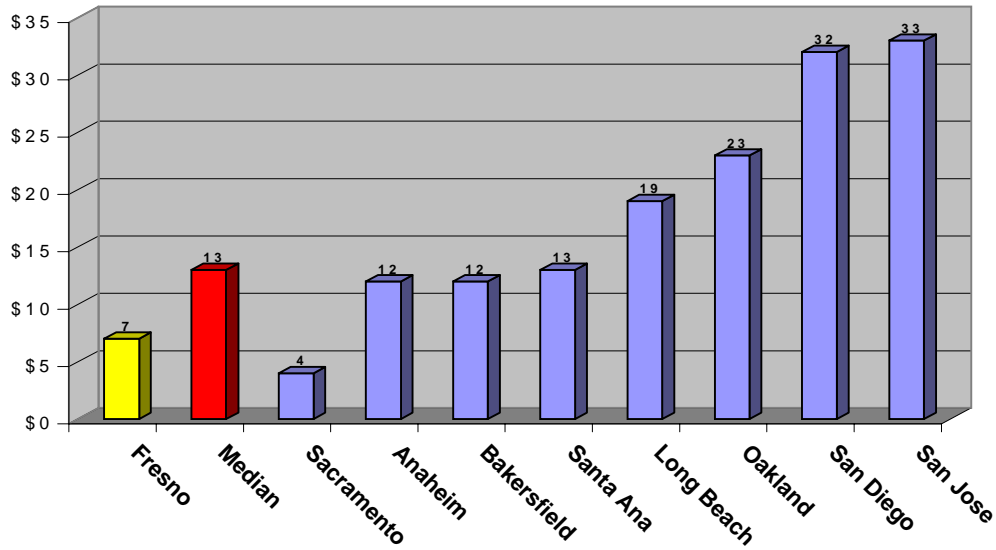


On Franchise Fees, Fresno is below the median on both percentage of General Fund revenue and on a per capita basis.

**% of General Fund Revenue from Franchise Fees (City of San Diego Study)  
Graph No. 93**

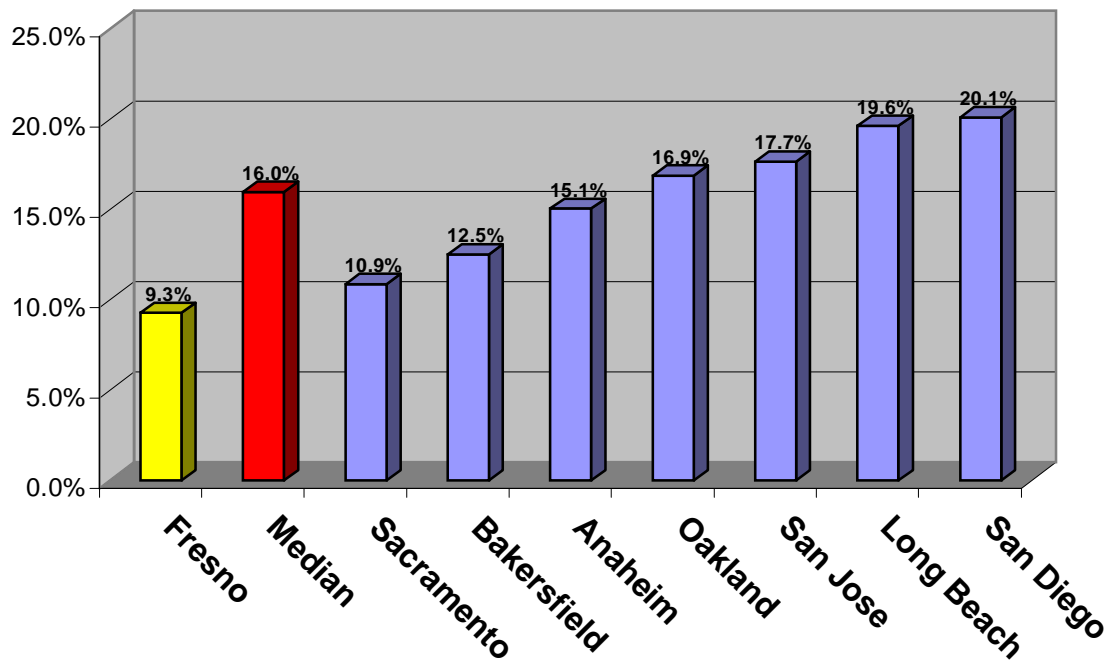


**Per Capita Franchise Fee Revenue (City of San Diego Study)  
Graph No. 94**



Adjustment of City fees, based on recommendations resulting from the Maximus study (See Appendix D), has been the subject of debate in Fresno's City Council while this report was being prepared. Fresno collects the lowest percent of the General Fund from fees of any of the peer cities. Even if all recommendations presented are adopted by the City Council in January, Fresno will still be below the median. (See Recommendations Section, pages 104-111.)

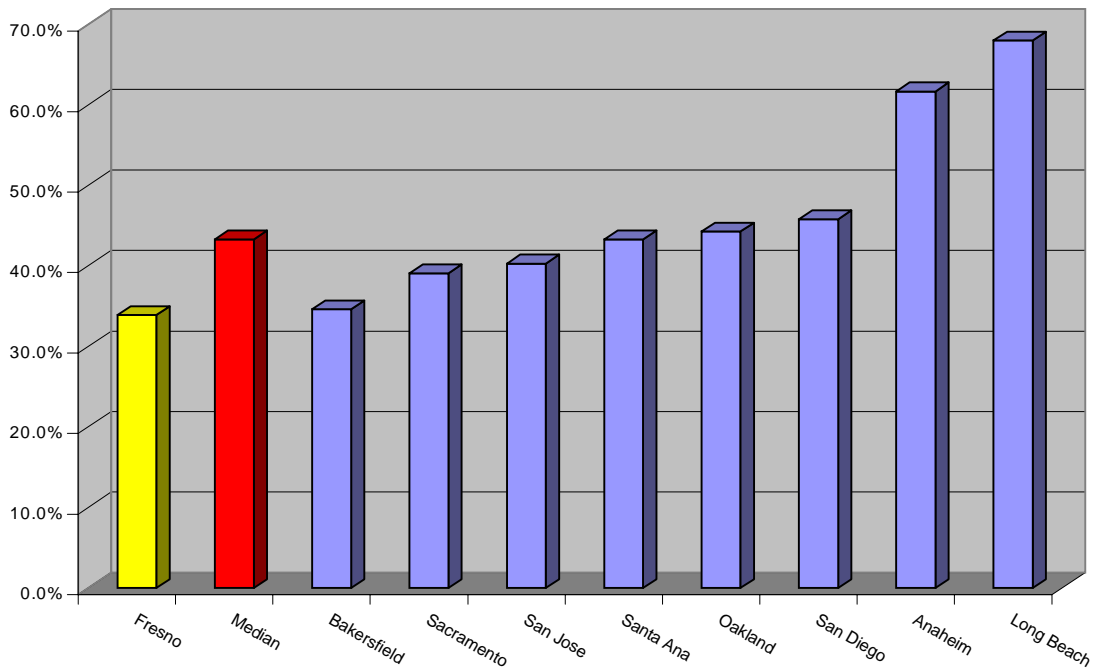
**% of General Fund Revenue from Fees, Licenses, Permits (FY01 CAFRs)**  
**Graph No. 95**



## MEETING THE CHALLENGE

There are a number of other miscellaneous fees and taxes charged by cities, such as Transient Occupancy Taxes, Real Estate Transfer Taxes, and Transfer in Lieu of Taxes fees. (See Graph No. 97.) One recent study commissioned by the City of San Diego, which also included user fees in this group, showed that the City of Fresno has the least amount of revenue from these sources among its peer cities.

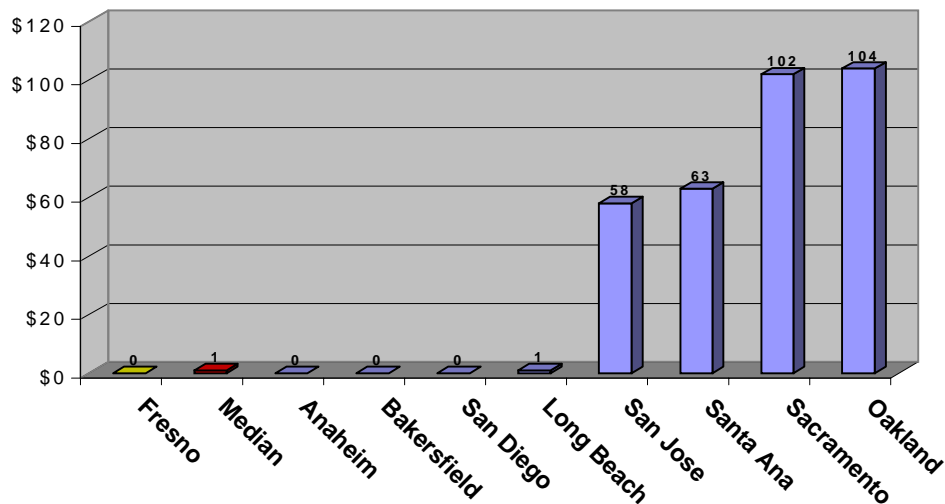
**% of General Fund Revenue from Other Sources (City of San Diego Study)**  
**Graph No. 96**



## **MEETING THE CHALLENGE**

Utility User Taxes are one of the major sources of revenue used by cities to augment their General Fund. In fact, until the late 1980's the City of Fresno also had a Utility User Tax. Over 150 California Cities, accounting for more than 50% of the state's population, collect utility taxes today, receiving an average of 15% of their General Fund from this revenue source, some as high as 22%. Recent elections have seen efforts by taxpayer associations to repeal utility taxes, but most of these efforts have failed, including failed attempts in Sacramento and Stockton this past November. (See Recommendations Section, pages 104-111.)

**Per Capita Utility User Tax Revenue (City of San Diego Study)**  
**Graph No. 97**



Assessment districts can be established by a variety of mechanisms and cover a variety of services. Generally, they are a self-assessed tax for a dedicated public purpose. According to the 1999 California Controller Cities Report, cities who had assessment districts in 1999 that generated more than \$1 million in revenue included Anaheim, San Jose, Bakersfield, Oakland, Sacramento and Riverside. Purposes include citywide lighting districts and recreation and parks support, which when paid for by an assessment, allow General Fund revenues to be spent elsewhere. Many cities have more narrow assessment districts for specific purposes in portions of their city. These generally take the form of Business Improvement Districts, which dedicate a self-assessed tax on business owners in a given area to provide extra services such as more frequent street cleaning, graffiti removal, street improvements and in some cases other services such as tree trimming. It is conservatively estimated that a combination of approaches in Fresno could free \$5 million annually of current General Fund revenues. (See Recommendations Section, pages 104-111.)

**Revenue Analysis**

As shown previously, Fresno citizens have a lower per capita income than their peers. However, the per capita tax paid by Fresno citizens is even further below the median (see chart below). The net effect is that Fresno citizens pay a smaller percentage of their income in taxes than most of their peers. On an unadjusted basis, Fresno could add \$120 in taxes per capita and still be below the average of their peers. That would generate \$50 million of added revenue to the City's General Fund. Even adjusting for Fresno's lower per capita income, Fresno could still add \$50 per capita in taxes, adding \$20 million to the General Fund, and still be below the average of their peers. Incidentally, readers might recall that Fresno household income is slightly above the peer median.

**Chart No. 3**

<b>Revenue Analysis</b>			
<b>"Tax Index"</b>			
	<b>Per Capita Income</b>	<b>Per Capita Taxes</b>	<b>"Tax Index"</b>
<b>Riverside</b>	<b>\$20,549</b>	<b>\$299</b>	<b>1.46%</b>
<b>San Diego</b>	<b>\$24,443</b>	<b>\$370</b>	<b>1.51%</b>
<b>Bakersfield</b>	<b>\$19,148</b>	<b>\$295</b>	<b>1.54%</b>
<b>Fresno</b>	<b>\$16,233</b>	<b>\$278</b>	<b>1.71%</b>
<b>Stockton</b>	<b>\$16,096</b>	<b>\$308</b>	<b>1.91%</b>
<b>Long Beach</b>	<b>\$21,603</b>	<b>\$422</b>	<b>1.95%</b>
<b>Anaheim</b>	<b>\$22,722</b>	<b>\$473</b>	<b>2.08%</b>
<b>San Jose</b>	<b>\$23,619</b>	<b>\$499</b>	<b>2.11%</b>
<b>Sacramento</b>	<b>\$20,476</b>	<b>\$454</b>	<b>2.22%</b>
<b>Santa Ana</b>	<b>\$13,304</b>	<b>\$357</b>	<b>2.68%</b>
<b>Oakland</b>	<b>\$20,348</b>	<b>\$656</b>	<b>3.22%</b>
<b>Average</b>	<b>\$19,867</b>	<b>\$401</b>	<b>2.02%</b>

**Observations**

This report does not recommend any tax or fee increase other than those proposed in the Maximus study referred to earlier. It does, however, recommend that Fresno quantify the resources required to address its economic development needs, pockets of under-investment and deferred maintenance issues. To the extent that additional resources are required, over and above those resources that can be freed up through the efficiency improvement recommendations contained in this report, grant funding or the issuance of debt, the Task Force recommends that every effort be made to diversify Fresno's sources of General Fund revenues and that priority be given to an overall tax and fee structure that encourages new employment. (See Recommendations Section, pages 104-111.)



# Part III

## Best Practices

**BEST PRACTICES**

As stated earlier in this Report, the focus on California cities for the efficiency and revenue benchmarking was due to the State's unique tax base. However, the study of "best practices" cities was not limited to California. The best practices outlined below are examples drawn from cities that are recognized as being among the best-managed cities in the nation. For example, **Indianapolis** is known for its successful use of "managed competition"; **Charlotte** for its effective use of "Balanced Scorecard"; **San Diego** for its economic development programs; and, **Portland** for its coordinated transportation systems. Implementation of best practices has resulted in significant savings and/or improved services for these and other cities.

The Task Force believes the same results could be obtained in Fresno, and that the cumulative effect of the benefits achieved would have a material effect on Fresno's future. This report explores a number of best practices employed in other cities, cites a few examples and discusses potential implications for Fresno. Some of the best practices examples are drawn from the City of Fresno, where certain departments are operating in ways that serve as a model for other departments.

**Privatization**

Privatization involves a decision made by a local government to "get out of the business" of providing a particular service. From that point forward, citizens purchase that service from private sector firms. Clearly, this cannot be applied to certain services, such as police protection. The Task Force identified seven examples of successful privatization, principally in the area of water services, wastewater treatment, water treatment, and waste removal services. One of these cases of "privatization" is summarized below:

**City of Atlanta and United Water Services** privatized water services in 1999 when the City of Atlanta faced a financial crisis with its water system. Upgrading the aging system would have resulted in an 81% increase in water rates. Citizens and local businesses were alarmed. Mayor Campbell formed a public-private partnership to oversee new investment and management of the city's water system. They then awarded a 20-year contract to United Water Services Atlanta (UWSA), a joint venture of United Water Services and a local engineering firm. In addition to responsibility for the two water treatment plants, storage tanks, pumping stations, fire hydrants, and water mains, USWA assumed responsibility for billing, collections, and customer service. Savings over the life of the contract are estimated at \$400 million, and the City avoided the 81% rate increase. Quality has improved, and \$48 million in revenues has been added to the enterprise fund. (For more information, see Best Practices Appendix C, Case #1.)

**Implications for Fresno.** Privatization should be considered for any services that can be more effectively provided by the private sector. An example for Fresno is collection of Commercial Solid Waste under a franchise arrangement with private haulers. If the private sector can perform this service with equal or improved efficiency relative to current City delivery of this service, the citizens of Fresno will benefit because the franchise fees collected by the General Fund will fund the delivery of other needed services. (See Recommendations Section, pages 104-111.)

**Managed Competition**

Under managed competition, a public agency competes with private sector firms to provide public agency functions and services. Managed competition attempts to create a “level playing field” between the public and private sectors to select the most cost effective method of delivering public services. Managed competition is used by public agencies as an alternative to privatization or outsourcing. As has been stated by former Indianapolis Mayor Stephen Goldsmith (and Adam Smith before him), competition is the driving force that results in a high level of service at a lower cost. As has been demonstrated in Indianapolis and other cities, there is no certainty that the private sector can perform services more efficiently than the public sector, particularly since the public sector does not have to pay taxes or make a profit.

**The Indianapolis Experience:** When asked why former Indianapolis Mayor Stephen Goldsmith changed his focus from privatization to managed competition, he replied that private monopolies are not better than public monopolies, and that it is the competitive aspect that drives value to the citizens. His view is that City Hall has responsibility for providing services, but if it can hire-out those services more effectively than it can produce them, then the City is better served if it does. Until local government measures the quality and cost per unit of delivering a service, it cannot really know if it is efficient in delivering the service. The Managed Competition process forces that scrutiny.

In Indianapolis, both quality and quantity of services went up as a result of managed competition. The process resulted in some services being contracted to the private sector while others were retained by the City, but at a much lower service delivery cost than had been the case in the past. The estimated savings over a 10-year period was \$450 million. (See Best Practices Appendix C, Case #2.)

**The Phoenix Experience:** Initiated over 20 years ago out of a desire to reduce municipal costs post-Proposition 13, the Phoenix City Council directed the City Manager to identify potential candidates for privatization. When the Public Works Director proposed that residential waste collection be privatized, the Mayor and Council requested that private bids be compared with the City’s costs. Therefore, Managed Competition was born out of the privatization effort. Between 1978 and 1988, the competitive process saved the city in excess of \$25 million. Initially, the city lost one-half of the solid waste program to private firms, but by 1988, the city had won back all contracts and returned to 100% city provided residential solid waste collection services. (See Best Practices Appendix C, Case #3.)

**Implications for Fresno.** Where possible, the Task Force recommends Managed Competition over Privatization. Specific candidates identified by the Task Force are shown in the Recommendations Section.

## **Outsourcing**

Outsourcing is the term used to describe the action taken by a local government to put a set of city services out to bid, then contractually tying service delivery expectations to that arrangement. In contrast to Privatization, Outsourcing keeps the City “in the business”, but the service is delivered by a third party on a contractual basis. One of the areas where we see this type of approach most often is in the area of technology - information processing, and/or communications. However, many other city operations are also candidates. Functions can be outsourced completely or partially. For example, the city can choose to outsource computer and network maintenance, but not the other IT functions.

**The Indianapolis Experience:** In five years, Mayor Goldsmith contracted out over 70 city services, including operation of the airport. Some examples of services outsourced include:

Advanced Wastewater Treatment Plants: A contract with a private management partnership gave Indianapolis access to cutting-edge technology while cutting costs by 44%.

Trash Collection: By opening up trash collection for competitive bid, Indianapolis expected to save \$15 million over five years and the cost of trash collection dropped from \$85 to \$68 per household. The rules were that nine of the ten districts would be bid out; no one entity could get more than 3 districts to avoid monopolies. The City crew won 3 districts, while reducing its prior costs by \$2.1 million.

Sewer Billing: Indianapolis realized operational savings and increased revenues of \$2.4 million per year; the vendor split 50/50 with the City the previously unbilled and under-billed collections.

Street Repair: Putting the sealing of street cracks and the filling of potholes out for competitive bid, the City's employees won the bid by trimming 25 percent from their cost of filling potholes and 60 percent from their cost of crack-sealing.

Microfilm: The microfilming of public records was cost reduced 35% (\$240,000 per year) and services were improved.

Computer System: Although the City found that outsourcing of information technology was the most difficult, Indianapolis now reports that they have a coordinated technology platform citywide, integrated systems, and a significant improvement in their e-business capability.

**San Diego's Outsourcing of Information Technology:** The City of San Diego implemented a multiyear, mega-million dollar outsourcing arrangement with a collaborative group of vendors. The seven year contract was for \$644 million. The contract includes 101 different service levels (for example, the vendor has four hours to fix and repair a broken PC once it's reported), 44 of which have financial penalties if they're not met. The maximum penalty is \$675,000 per

month. The contract includes a 3-year phase in. They are in their third year this year (2002). While the City reports that the transition has been difficult, the systems have been upgraded, internet communication speed has been increased 140-fold, the 22 different help desks have been consolidated into one, and the County's 533 applications are being streamlined. (See Best Practices, Appendix C, Case #4.)

**Implications for Fresno.** Outsourcing is already used in certain activities in the City of Fresno. Outsourcing is an alternative to managed competition, particularly where the entire function cannot be turned over to the private sector. The Task Force recommends that all opportunities for outsourcing be explored. Management for the City of Fresno recently identified an outsourcing approach to providing service to Fresno transit riders that would result in both a savings of \$1.2 million and an improvement in current service levels. (See Recommendations Section, pages 104-111.) Other opportunities identified by the Task Force include utilities billing and collections, a function that the Finance Department currently provides for the Department of Public Utilities.

### **Regional JPAs**

Regional Joint Powers Authorities involving two or more municipalities offer opportunities for cost efficiencies, service improvements and other benefits. For example, there is nothing to suggest that a public bus cannot deliver riders just as efficiently when it crosses the boundaries from one city to another. The synergies available through consolidation of transit departments under a joint powers authority will generally reduce capital equipment requirements, reduce labor costs and reduce regional pollution as bus routes are optimized

**Palo Alto, East Palo Alto and Menlo Park** entered into a Joint Powers Authority to resolve a joint flood-control problem. Stanford University, which has extensive land holdings along the same creek bed, became an associate member of the JPA. State law restricts membership of joint powers authorities to local governments. The goal of the JPA is long-term flood control. Each of the governmental entities is funding the JPA. Previously, they individually paid for various creek maintenance projects to manage the flooding problem. The Santa Clara Valley Water District allocated \$500,000 for a survey of the creek (source of funding). The estimated price of the flood project is about \$100 million, and is likely to require significant outside funding. Funding is generally more available where agencies are working jointly on the solution of a regional problem. (See Best Practices Appendix C, Case #5.)

**Riverside and Moreno Valley.** Challenged to provide adequate coverage, Moreno Valley and Riverside entered into 30-year JPA which reduced cost, provided a higher service level, and paved the way for a cooperative relationship...reducing response times from 12 to 15 minutes to 4 to 5 minutes...saving \$700,000 in initial capital costs and an estimated \$50,000 annually. (See Best Practices Appendix C, Case #6.)

**Portland.** The regional approach developed through the City of Portland's Office of Transportation, Metro, and Tri-Met, has resulted in Portland leading the nation in linking transportation to land use and livability. Light rail, transit, bicycle and

pedestrian ways, a new streetcar, and transit-oriented development incentives have contributed to their national reputation as a leader in limiting the increase in automobile usage. Portland set a transportation goal to reduce the number of miles traveled by each Portlander by 10 percent, along with a 10 percent reduction in the number of parking spaces per capita. Their goal is to maintain or improve the quality of life, including protection of their green environment, clean streets, and clean air. (See Best Practices Appendix C, Case #7.)

**Implications for Fresno.** The Task Force identified several Fresno operations that naturally lend themselves to regional approaches, notably Wastewater Treatment Transit, and Economic Development.

### **Public-Private Sector Partnerships**

As governments at the state, local and federal level are faced with increased service demands and infrastructure needs, they are increasingly turning to partnerships with the private sector to provide vital services to their constituencies. A report, “For the Good of the People: Using Public-Private Partnerships to Meet America’s Essential Needs”, released by The National Council for Public-Private Partnerships (NCPPP) states, “Without the use of public-private partnerships, many elected officials will be faced with choosing between harmful reductions in services and significant tax increases. By being innovative and forging new ways of providing vital services, governments are proving that public-private partnerships are a practical and viable alternative that, in many cases, maintains quality services without significant tax increases.”

The **Riverside Computer Investment Program** (RCIP) is a public-private partnership between the city, the county credit union, a local computer business, and the Riverside Community On-Line (RCOL) project. RCIP aims to bridge the digital divide by helping low income families obtain the high-quality computers and training necessary to close the gap. RCOL raised money to subsidize the purchases and reduce monthly payments for the families. Because access to credit was found to be a major hurdle, the program also works with a credit union to offer low-interest loans and eliminate credit barriers. In addition to residency and income requirements, applicants must be enrolled in public school, have passing grades and a good attendance record, and must complete a basic computer course at one of three training centers. The program is aimed at students aged 9 to 17, who are then held accountable to train their siblings and parents. In its first year, RCIP helped 145 families buy computers. (See Best Practices Appendix C, Case #8.)

Helping businesses in **San Diego** grow and flourish is a major focus of the City of San Diego. The City is dedicated to helping foster the region’s economic base to improve the quality of life for its citizens and business community. San Diego uses multiple partnerships to further its joint business assistance, and international trade and development objectives. (See Best Practices Appendix C, Case #9.)

**Implications for Fresno.** Private-public sector approaches are particularly useful where the effort or the resource required to achieve the goal is beyond the financial means of any one entity. For example, the revitalization of downtown Fresno is a worthwhile goal

which will require millions of investment dollars. However, if the City maximizes its ability to leverage private sector investment in that effort, the goal can be achieved more quickly, and it will provide an incentive for additional private sector investment.

### **Reengineering**

Reengineering is the rethinking and redesign of business processes (and the associated systems and organizational structures) to achieve a dramatic improvement in performance. Reengineering is not downsizing, restructuring, or reorganization. It is the examination and change of the five components of the business: strategy, processes, technology, organization, and culture. A sluggish economy and the threat of State cuts have caused cities and counties to determine how to “deliver more with less.” One of those tools is reengineering.

**Long Beach** decided that reinventing Traffic Engineering was a way to do more with less, as the economic downturn of the early 1990s resulted in 30-50% smaller staff than comparable agencies, they rethought their way of doing business to see how it might be streamlined. They simplified regulatory requirements, combined the transportation planning and traffic engineering staffs, used planners to facilitate communication by having them staff a call-in comment hotline, and institutionalized Safety as their agency’s top priority and accident reduction as an annual performance target. They then leveraged other City staff such as police officers, neighborhood services, and business outreach staff, resulting in a citywide accident rate decline. (See Best Practices Appendix C, Case # 10.)

**The City of Toledo** improved energy usage and costs and air quality dramatically with savings or cost avoidance estimated at over \$19 million since 1985 by implementing a 3-phased approach to energy efficiency. (See Best Practices Appendix C, Case #11.)

**Implications for Fresno.** Many of the City’s departments would benefit from re-engineering, and the Fresno Fleet Management Department is a helpful example for others. Their motto is “Run it like you own it,” and they mean it. They have a Business Plan, Annual Report, Customer Satisfaction Survey and a Customer Service Brochure. They strive to achieve competitive pricing by benchmarking their key cost factors against local, private competition. Using fully burdened labor rates, they achieve: 16% below the local market labor rate of \$72/hr.; parts rate 34% below Fresno market pricing; and fuel charges 25% below local fuel costs. Their customer satisfaction surveys indicate high satisfaction levels (95% rating excellent), and they continue to increase efficiency, adding 470 pieces of equipment, but only 1 mechanic over a ten-year period. In addition, 77% of their Automotive Technicians are ASE Certified, earning them the ASE Blue Seal of Excellence Program Award. (See Best Practices Appendix C, Case #12.)

### **Volunteerism**

As revenues become constrained, more cities look to the major expense item in their budgets – personnel costs and related benefits—as a source of potential budget cuts. However, in many cases, those FTEs are essential for the continued delivery of municipal services. Volunteerism is a way to supplement paid staff in the delivery of

important services. Even public safety services are looking at ways to use volunteers.

**Hawaii.** Volunteerism became an inexpensive avenue for enhanced fire protection in Hawaii, although it required the passage of State Legislation (Bill 191) to provide equal status with career fire stations for fire insurance coverage. The number of volunteer stations increased from 10 to 16; the number of personnel increased from 120 to 248; and, there is a waiting list of 10 communities that would also like to participate. (See Best Practices Appendix C, Case #13.)

**Implications for Fresno.** Fresno has made good use of volunteers, but much more can be done. Facing declining General Fund support, Fresno Parks Department turned to volunteers from the Local Conservation Corps and inmates for the reconstruction of 23 Tot Lots, at a savings of \$2.3 million. (See Best Practices Appendix C, Case #14.) The Fresno Police Department has made extensive use of Volunteers through its Citizens on Patrol and Volunteers in Police Administration programs. The newly established Fresno Citizen Corps, which has received nationwide recognition for its innovative approach, offers the promise of significantly increased use of volunteers in the City of Fresno.

### **Performance Measures**

A common adage in the business world is that “what you measure gets done”. City Governments have come to recognize this as well. It is not a coincidence that the nation’s cities with the best reputations for good management have excellent performance measurement systems. It is important not only that activities be properly measured, but that the right activities be measured so there is clear alignment between the priorities of city governance and the work performed by city employees.

**The City of Charlotte** instituted Management by Objectives in 1972. In 1994, they introduced the **Balanced Scorecard**, a performance management model that challenges organizations to evaluate success and achievement across four perspectives: financial, customer, internal processes; and, learning and growth. In 1995 Charlotte won first prize in the City Livability Awards, being cited for “setting the standard by which to measure good local government”.

**Implications for Fresno.** Fresno implemented a balanced scorecard approach to performance measures, and linked it to the budget process in 2001. Since that time, it has continued to refine the process, adding MBO’s, and moving performance measures further down the organization. There are great opportunities for Fresno to improve its efficiency as it chooses performance measures that permit benchmarking, and to further enhance the implementation of the balanced scorecard approach (linking the organization from top to bottom).

### **Best Practices – General Observations**

**Standing “Best Practices” Task Force.** Successful companies in the private sector are known for their culture of “embracing change”. They recognize that resting on their laurels is, at best, a formula for mediocrity and, at worst, a road to bankruptcy. Well-managed cities need to also establish a culture that embraces change. The Task Force recommends that a standing “Best Practices” Task Force be established under the



## **MEETING THE CHALLENGE**

direction of the City Manager, charged with actively promoting the adoption of “Best Practices” in all areas of the City organization. (See Recommendations Section, pages 104-111.) The Matrix shown on the following chart summarizes the areas of opportunity identified by the Task Force. This is not intended to be a complete list, but rather a point of departure for the proposed “Best Practices” Task Force. As the reader can see, there is fertile ground here for uncovering efficiencies that will permit redeployment of resources to much needed investment areas. To achieve these benefits, there must be a mindset in the Mayor’s Office and the City Council that the best interests of all the Citizens of Fresno will always be placed ahead of the special interests of a few.

**Chart No. 4**

**“Best Practices Opportunities”  
City of Fresno**

	Privatization	Managed Competition	Outsourcing	Regional JPA's	Public Private Partnerships	Reengineering	Volunteerism
Police						<b>X</b>	<b>X</b>
Fire				<b>X</b>		<b>X</b>	<b>X</b>
Parks and Recreation			<b>X</b>		<b>X</b>	<b>X</b>	<b>X</b>
Public Works		<b>X</b>		<b>X</b>		<b>X</b>	<b>X</b>
Transit		<b>X</b>		<b>X</b>		<b>X</b>	<b>X</b>
Wastewater Treatment				<b>X</b>		<b>X</b>	
Commercial Solid Waste	<b>X</b>					<b>X</b>	
Residential Solid Waste		<b>X</b>		<b>X</b>		<b>X</b>	
Utilities Billings And Collections			<b>X</b>			<b>X</b>	
Convention Center		<b>X</b>		<b>X</b>		<b>X</b>	<b>X</b>
IT		<b>X</b>	<b>X</b>			<b>X</b>	
Printing		<b>X</b>				<b>X</b>	
Housing					<b>X</b>	<b>X</b>	<b>X</b>
Economic Development				<b>X</b>	<b>X</b>	<b>X</b>	<b>X</b>

**Mayor’s Conference “Best Practices” Awards.** The “Best Practices” Task Force should encourage all departments that implement “Best Practices” to submit applications for Mayor’s Conference “Best Practices Awards.” The Task Force should work collaboratively with the departments to prepare and process the applications. This will incent innovation, promote pride and help create the desired cultural change in city operations. (See Recommendation Section.)

**Balanced Scorecard.** The Task Force recommends that consideration be given to implementation of a fully developed Balanced Scorecard Performance measurement system for FY 2005. (See Recommendations Section, pages 104-111.)

# Part IV

## Contingency Planning

## **CONTINGENCY PLANNING**

### **Description of the Process**

The Mayor's Council of Economic Advisors (CEA) predicted in the Spring of 2002 that the State budget was headed for a crisis of major proportions. It further predicted that city governments would likely be affected by this crisis as the State sought to balance its budget by tapping city revenues, and recommended that a contingency plan be developed to anticipate this eventuality. Since Fresno's portion of the Vehicle License Backfill, one of the most often discussed budget balancing options by State officials, totals 10% of Fresno's General Fund, development of a contingency plan seemed prudent. This recommendation was principally responsible for the appointment of this Task Force by the Mayor.

Contingency planning was initiated long before the State finally adopted a FY 2003 State Budget two months late in early September 2002. It was clear that this Budget was only postponing the serious decisions that were expected to come after the November election. On December 9, 2003, the Governor formally declared a Budget Emergency, and a Special Session of the newly elected Legislature began deliberations on \$10 billion in current fiscal year budget cuts and learned that in January as much as another \$30 billion would need to be cut. This represents one-third of the State General Fund.

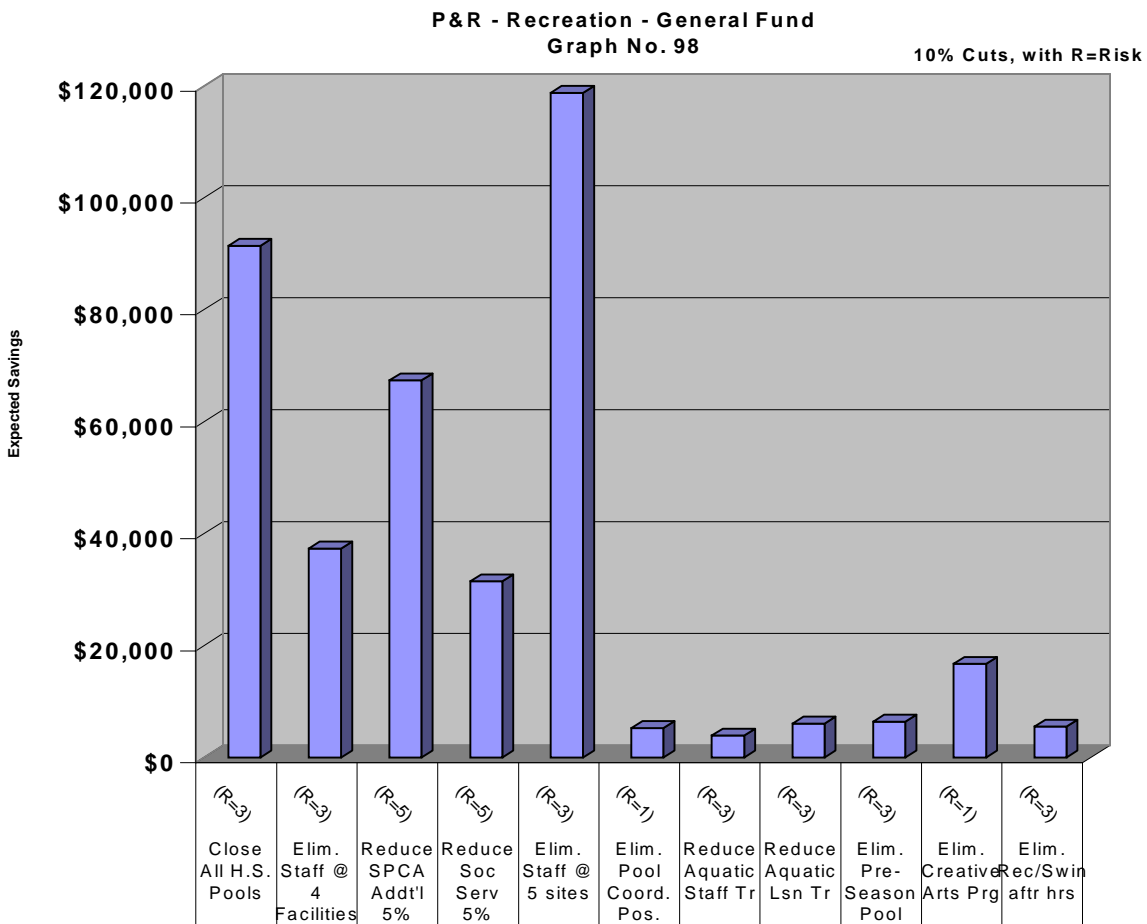
Each City Department in Fresno was asked to prepare a contingency plan that would add up to three levels of expense reductions – 5%, 10% and 15%. Among the decisions made in going out to Departments with the Contingency plan was that no Department, including Public Safety Departments and Enterprise Departments, would be exempt. The reasons for this include the desire to treat all City Departments fairly, to seek new efficiencies throughout the City, and to attempt to avoid fee increases in the case of fee supported departments.

The Contingency Planning instructions explicitly said that Departments should first exhaust “all potential cost reduction alternatives that have the least impact on existing services.” For each option Departments were directed to describe the cost saving action being proposed, describe the risks of exercising that option, estimate the probability of success in achieving the result, and an estimate of lead time to achieve the cost savings. Risks to service delivery were to be quantified from R=1 (no risk) to R=5 (high risk).

Departments were directed to complete their submissions by October 24, 2002. Since that date, further analysis, refinement and modifications have been made to several of the submissions.

**Sample Contingency Plans**

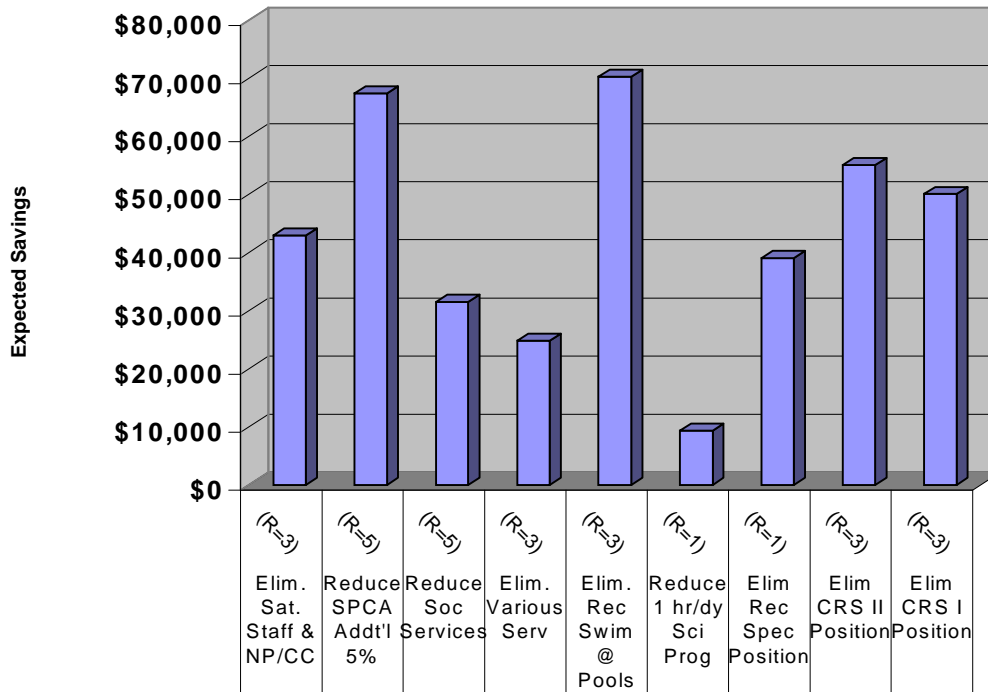
To help illustrate the process, it is useful to review two organizations. The **Recreation Division of the Parks and Recreation** Department was chosen partly because it is understandable to most people, and partly because it was a fair representation of the responses received and the choices facing the City.



## MEETING THE CHALLENGE

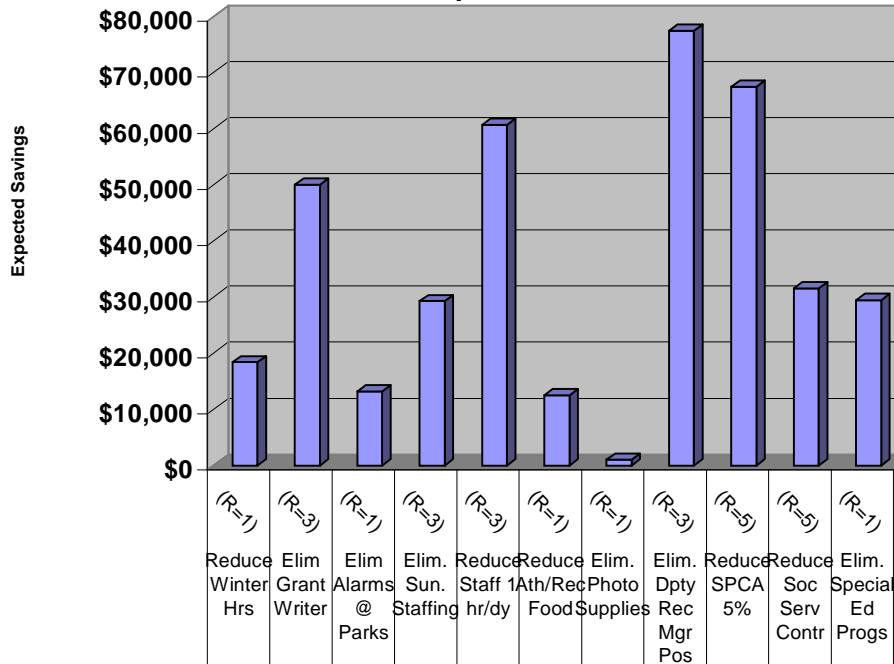
P&R - Recreation - General Fund  
Graph No. 99

15% Cuts, with R=Risk



P&R - Recreation - General Fund  
Graph No. 100

5% Cuts, with R=Risk



## MEETING THE CHALLENGE

Summarizing all three level contingency plans in one chart shows the relative distribution of the cuts proposed.

### Parks and Recreation

#### Recreation Division (GF)

Chart No. 5

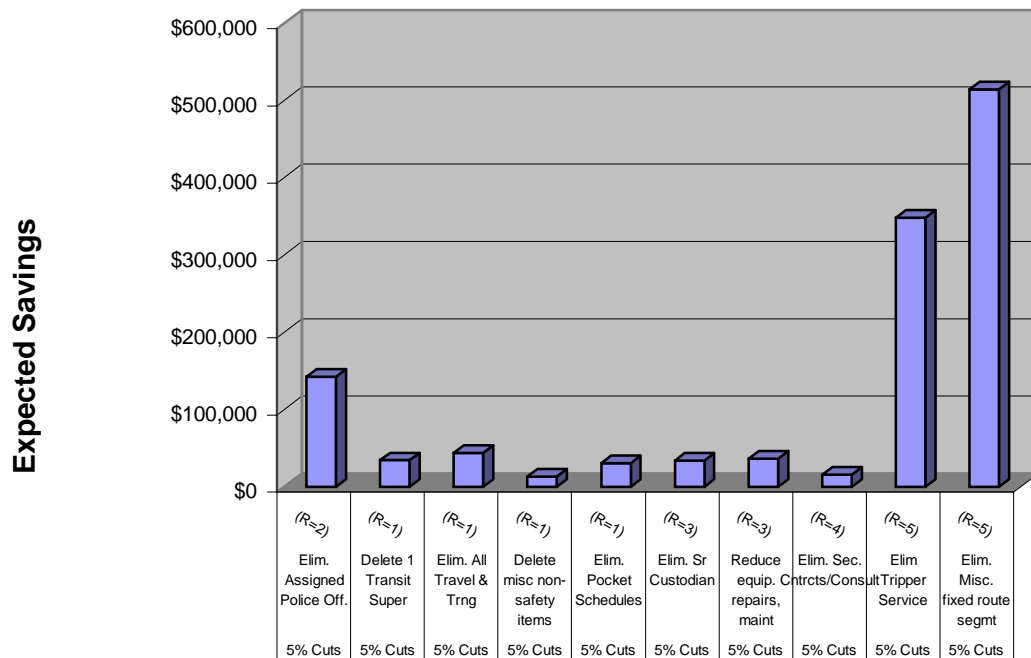
	R=1	R=2	R=3	R=4	R=5	Total
<b>5% Cuts</b>	\$74,511	\$0	\$217,355	\$0	\$98,915	<b>\$390,781</b>
<b>10% Cuts</b>	\$22,005	\$0	\$269,502	\$0	\$98,915	<b>\$390,422</b>
<b>15% Cuts</b>	\$48,388	\$0	\$243,095	\$0	\$98,915	<b>\$390,398</b>
<b>Total</b>	\$144,904	\$0	\$729,952	\$0	\$296,745	<b>\$1,171,601</b>
Cumulative Total	\$144,904	\$144,904	\$874,856	\$874,856	\$1,171,601	
% of Budget	1.85%	0.00%	11.19%	0.00%	15%	

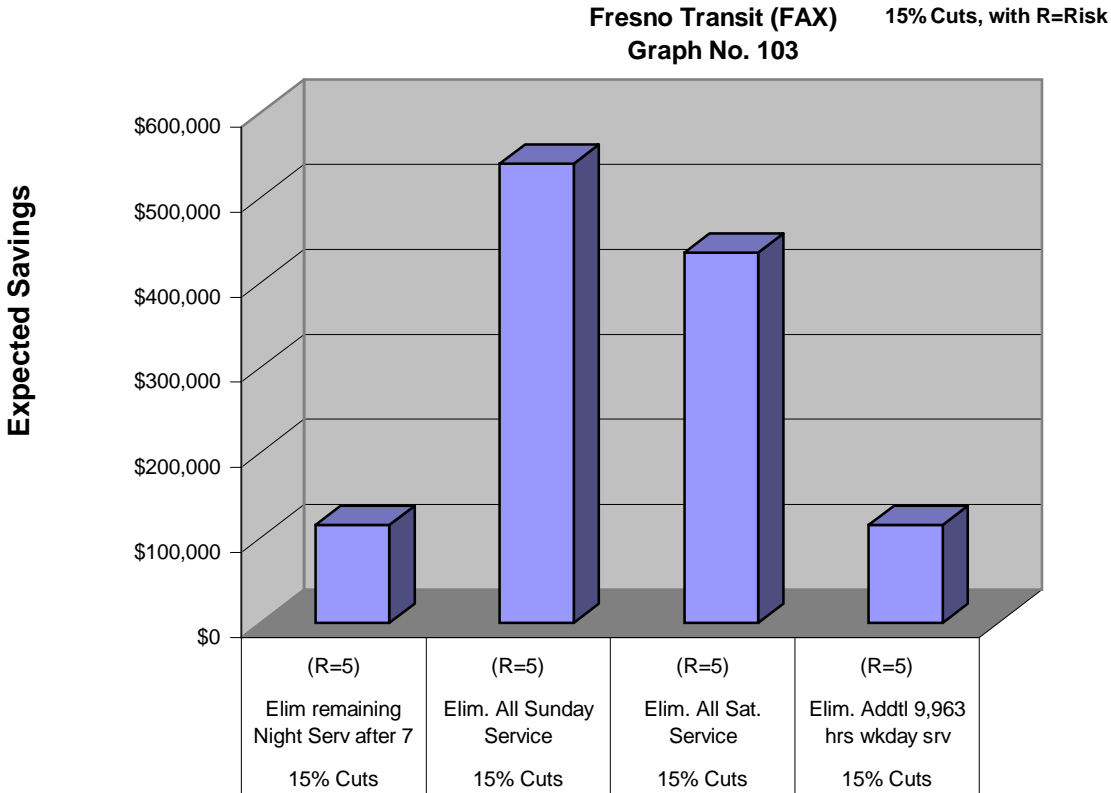
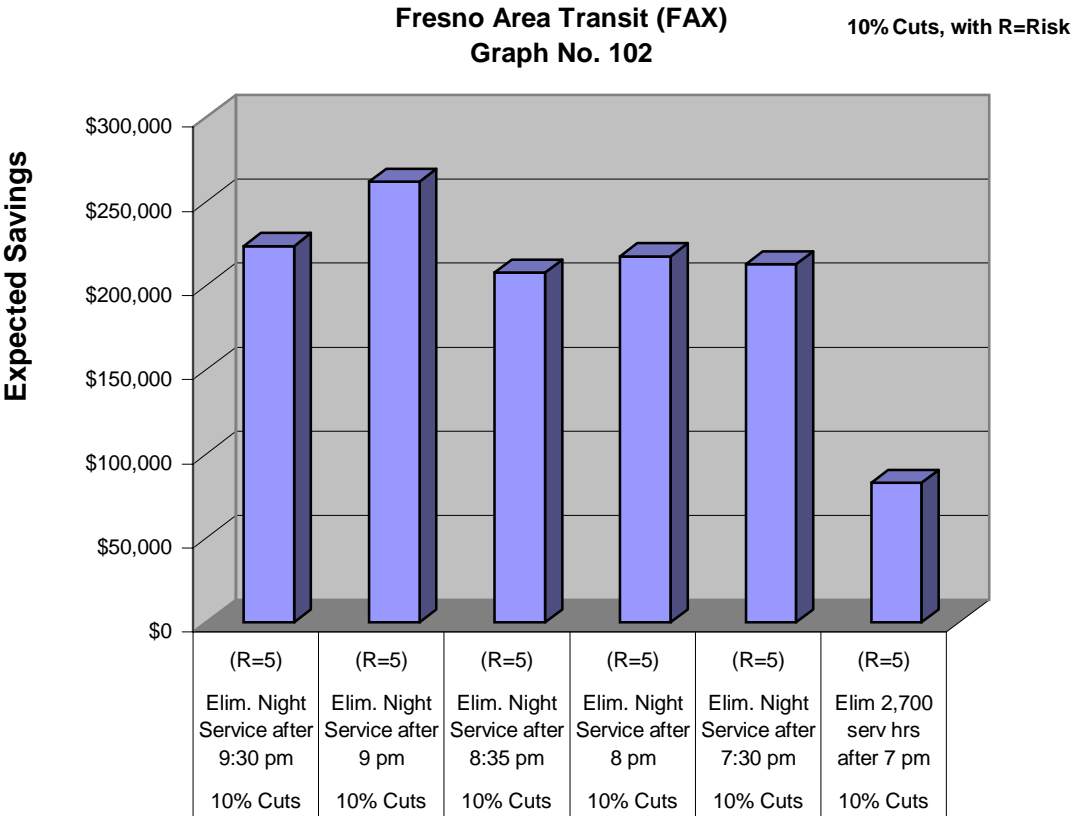
The Task Force was impressed with the **Fresno Area Express's (FAX)** submission for their Contingency Plan. They not only complied with the request showing where they would make cuts and what the service impacts would be, but they offered an alternative delivery model, essentially privatizing a portion of their services, which they maintain would save money while improving service delivery.

### Fresno Area Transit (FAX)

Graph No. 101

5% Cuts, with R=Risk





**Plan Output**

**General Fund Departments**

An overview of General Fund Department submissions follows:

**Chart No. 6**

<b>Contingency Planning Proposed Cuts (\$000's)</b>					<u>Code</u>
<b>General Fund Departments</b>					R=1 Low Risk Cuts
	<u>R=1+2</u>	<u>% of Total Dept.</u>	<u>R=1+2+3</u>	<u>% of Total Dept</u>	R=2 Medium Risk Cuts
<b>Police</b>	\$0	0%	\$431	0.50%	R=4 High Risk Cuts
<b>Fire</b>	919	3.40%	1,348	5.00%	
<b>Parks and Recreation</b>	145	0.73%	1,620	8.20%	
<b>Public Works</b>	918	5.30%	1,348	7.80%	
<b>All Other</b>	120	3.80%	159	5.00%	
<b>Total</b>	<u>\$2,102</u>	<u>1.38%</u>	<u>\$4,906</u>	<u>3.21%</u>	

Notes:

2% of General Fund is \$3.05 Million

3% of General Fund is \$4.51 Million

As shown above, the Contingency plan for the General Fund departments yielded potential cost savings of \$2.1 million with no (or minimal) service delivery risks. An additional \$2.8 million, for a total of \$4.9 million, is potentially available, but this would involve some service delivery impairment.



**Internal Service Funds**

An overview of Internal Service Fund Departments follows:

**Chart No. 7**

<b>Contingency Planning Proposed Cuts (\$000's)</b>					<b><u>Code</u></b>
<b>Internal Service Fund Departments</b>					R=1 Low Risk Cuts R=2 Medium Risk Cuts R=5 High Risk Cuts
	<b><u>R=1+2</u></b>	<b><u>% of Total Dept.</u></b>	<b><u>R=1+2+3</u></b>	<b><u>% of Total Dept</u></b>	
<b>General Services</b>	\$63	0.20%	\$2,663	6.90%	
<b>ISD</b>	3	0.03%	273	2.60%	
<b>Personnel</b>	45	0.20%	217	1.00%	
<b>City Attorney</b>	0	0.00%	0	0.00%	
<b>Finance</b>	233	3.20%	414	5.60%	
<b>Total</b>	<u>\$344</u>	<u>0.47%</u>	<u>\$3,567</u>	<u>4.87%</u>	

**Notes:**

2% of ISF is \$1.47 Million

3% of ISF is \$2.20 Million

Since only one-third of the Internal Services Fund expenditures go to support the General Fund departments, only one-third of the savings shown here flow to the General Fund.

**Enterprise Departments**

An overview of Enterprise Department Contingency plans follows:

**Chart No. 8**

**Contingency Planning  
Proposed Cuts (\$000's)**

**Enterprise and Grant Funded Departments**

Code  
R=1 Low Risk Cuts  
R=2 Medium Risk Cuts  
R=4 High Risk Cuts

	<u>R=1+2</u>	<u>% of Total Dept.</u>	<u>R=1+2 +3</u>	<u>% of Total Dept</u>
FAX	\$262	1.09%	\$331	1.37%
FYI	369	5.01%	537	7.28%
Utilities – Water	0	0.00%	0	0.00%
Utilities – Sewer	0	0.00%	0	0.00%
Utilities - Wastewater	0	0.00%	0	0.00%
Utilities – Solid Waste	2,625	10.42%	3,475	13.80%
Utilities – Administration	4	0.15%	101	7.32%
Convention Center	754	11.89%	754	11.89%
Planning & Development	243	3.61%	310	4.60%
Housing and Economic Development	150	0.99%	906	5.96%
<b>Total</b>	<u>\$4470</u>	<u>3.39%</u>	<u>\$6,414</u>	<u>4.93%</u>

**Notes:**

2% of Enterprise & Grant Funds is \$2,603

3% of Enterprise & Grant Funds is \$3,905

**OBSERVATIONS**

As shown above, all three Funds showed the potential for savings cuts in the 1-3% range without major risk to service delivery; analysis of the output from the contingency planning process coupled with the previously discussed expenditure benchmarking, led the Task Force to the following conclusions:

- Immediate expenditure cuts in the 5% to 15% range would do much more than cut "fat" and would not be possible without very significant service delivery impairment.
- Across-the board expenditure cuts in the 2-2-1/2% are attainable without impairing delivery of essential services.
- There exists an opportunity to further reduce service delivery costs through the implementation of "Best Practices" discussed in the next section of this report, but it will take time to explore and implement those cost reductions. Examples are discussed in the recommendations section of this report.

# Part V

## Recommendations

## **RECOMMENDATIONS**

For ease of reference, this section contains all the recommendations produced by the Task Force, including those shown as the most important in the Executive Summary. They are grouped into four categories, with most of the recommendations being in the category of "Operating Efficiencies."

### **Contingency Plan**

It is impossible to predict with certainty the extent to which the City of Fresno will be financially impacted by circumstances outside its control. Negotiations regarding the solution to the State's deficit are likely to continue at least until mid-year, 2003. At the federal level, the possibility of having to finance a war in IRAQ contributes a significant element of uncertainty. Nevertheless, Fresno must anticipate and be prepared to survive and move forward in whatever economic environment takes shape. The Task Force recommends that the City approach this uncertainty with contingency plans at three levels, as described below.

*Readers of this report should take note that contingency plans, by definition, involve actions that must be taken on short notice. These plans do not assume savings from Best Practices that may take considerable time to implement, nor generation of new revenues that might require voter approval.*

#### **Level 1 Plan: \$7.5-\$8.5 Million plan**

This plan assumes that the financial impact to the City from State budget-balancing actions and a continued weak economy will not exceed \$8.5 million (5% of the General Fund). Plan implementation is predicated on the city taking two actions, neither of which would impact essential services or affect currently negotiated salaries:

##### **1. Implement the Fee Revenue actions recommended in the Maximus Study.**

The proposed fees, which are commonly collected in the benchmark cities, will raise \$4 to \$5 million (annualized) in incremental fees for Fresno and help diversify the City's revenue base.

##### **2. Implement a 2-1/2% across-the-board expense cut for all General Fund departments and Internal Service Funds, without impacting essential services.**

An across-the-board reduction of 2-1/2 % will provide an additional \$3.5 to \$4.0 million to the General Fund. This can and should be done without adverse impact to essential services.

#### **Level 2 Plan: \$8.5-\$20 Million Plan**

This plan assumes a financial impact to the City in the range of \$8.5 to \$20 million (5% to 12% of the General Fund). Implementation of this plan is predicated on freezing salaries and re-negotiating existing salary contracts in order to protect essential services and jobs.

**Level 3 Plan: More than \$20 Million**

This plan assumes a worst-case scenario, with an economic impact to the City of more than \$20 million. The City would first use at least a portion of its \$10 million reserve to protect essential services and jobs. In the absolute worst case, some curtailment of essential services may be required.

**Operating Efficiencies**

The Committee believes that the following recommendations on operating efficiencies should be implemented for the following three reasons: (a) City government has an obligation to its citizens to make government as efficient as possible; (b) even if a contingency plan is not required, the fragile U.S. and California economies may result in lower than anticipated City revenues; and (c) every effort must be made to free up revenues to address the City's economic development needs as well as the pockets of under-investment and deferred maintenance referred to in this report.

**3. Implement a 2-1/2% across-the-board expense reduction even if implementation of a contingency plan is not required.**

A 2-1/2% across-the board expense reduction in the **General Fund** and **Internal Service Funds** will generate \$3.5 to \$4.0 million in General Revenue Funds. In the highly unlikely event that these expense reductions are not required to offset reduced revenues, the savings can be used to invest in City priorities, as described below. These expense reductions must be implemented across all departments, including the Police and Fire Departments, which together represent 70% of the General Fund, and they must be accomplished without adverse impact to essential services. It is recommended that these expense reductions be implemented as of February 1, 2003.

The Task Force recommends that the proposed 2-1/2% across-the-board expense reduction also be applied to the **Enterprise Funds**. Although these are self-sustaining Funds, efficiencies are important because they free up revenues that can be used to promote increased usage of City facilities and/or prevent the need to raise rates for City services.

While this recommendation may appear to be at odds with the finding that some departments are under funded, it is important that belt-tightening occur in all departments before consideration is given to future investment requirements.

**4. Cap all Department Expense Budgets for FY 2004 at the same level as the amounts budgeted for FY 2003.**

This recommendation will ensure that the cost savings achieved through recommendation # 3 carry over into FY 2004. Deviations from this policy should require the approval of the Mayor and the City Manager, and subsequently be affirmed by the City Council.

- 5. In addition to the expense reductions under Recommendation # 3, evaluate cost-saving opportunities identified in the Department Contingency Plans that involve eliminating or changing the means of delivery of certain services.**

Some Departments and Funds did an excellent job of identifying “out-of-the-box” ideas for cost reduction. Some of these ideas involved changing the means of delivery of services while some proposed elimination of services. Three specific ideas favored by the Task Force are recommended below.

- 6. Evaluate alternative means of delivering FAX fixed-route and handy-Ride Services.**

In its contingency plan, the Transit Department (FAX) recommended that privatization of the FAX fixed-route and Handy-Ride services be considered, in the belief that this could save the City \$1.2 million in salaries and provide better service to customers. The Task Force recommends instead that a managed competition process be pursued, enabling City employees to compete for the delivery of these services against the private sector. This process should be conducted as an alternative to the establishment of a Regional Joint Powers Transit Authority, as discussed under recommendation # 13 below.

- 7. Evaluate the possible elimination of the Police Department Mounted Police Unit.**

In its contingency plan, the Police Department proposed a savings of \$600,000 through the elimination of the Mounted Police unit, which serves more of a public relations than a public safety function. As suggested in recommendation # 16, an alternative to elimination would be to convert the Mounted Police Unit to an all-volunteer unit, used for special events.

- 8. Evaluate alternative means of performing landscape maintenance functions.**

In its contingency plan, the City Parks and Recreation Department proposed a savings of \$200,000 by having Parks and Recreation employees, assisted by inmates and the Local Conservation Corps, perform landscape maintenance currently performed under contract in selected areas south of Dakota. The proposed approach anticipates that current service levels would be maintained. The Task Force recommends this proposal be fully developed and submitted for final approval.

- 9. Establish a standing “Best Practices Committee” charged with exploring and monitoring implementation of all Best Practices that offer service enhancement or cost reduction opportunities for the benefit of Fresno’s citizens.**

This report identifies several “Best Practices” opportunities that offer the potential for millions of dollars in savings for Fresno, and improvement of service quality. The Committee recommends that all such opportunities, and any others that may

be identified, be aggressively explored, and implemented if analysis shows that they will result in benefit to the Citizens of Fresno. To implement this process, the Task Force recommends appointment of a standing “Best Practices Task Force”, whose role would be to create a “best practices culture” within city government. They would be charged with encouraging the adoption of best practices in all aspects of City government and encouraging City Departments to implement and seek recognition from the U.S. Conference of Mayors for their best practices. The Task Force should meet regularly with the Mayor and City Manager to report progress, and to clarify its mandate. It should also meet regularly with the City Council’s Fiscal Forecasting Committee to report progress and solicit their views.

Best Practices initiatives should not be limited to those with a large dollar impact. Good ideas sometimes save only small amounts. However, these small amounts add up and staff initiatives should be encouraged whenever the “cost/benefit ratio” is clearly positive.

The Best Practices Task Force should meet regularly with the Mayor and City Manager to report progress, and to renew its mandate. It should also meet regularly with the City Council’s Fiscal Forecasting Task Force to report progress and solicit their views.

Specific “Best Practices” recommended for consideration by the Task Force are discussed below. This is not intended to be an exhaustive list, but rather some initial opportunities that have surfaced as the Task Force conducted its work on this report. It should be clear from the outset that the work of the Best Practices Task Force will never be done. The implementation of “Best Practices” is, by definition, a process of continual evolution and improvement. It should be encouraged even when budgets are not under stress.

## **10. Explore Privatization Opportunities**

While the Task Force favors “managed competition” over privatization as a general rule, there are some City activities where privatization is the preferred approach because managed competition cannot be pursued without adverse effects, or because the City wishes to completely remove itself from the activity. One example of the former is the franchising of **commercial solid waste collection**, where the City is prohibited by charter from paying itself a franchise fee and, further, possibly constrained from doing so by Proposition 218. An example of the latter could be the Fresno Zoo.

## **11. Explore “Managed Competition Opportunities”.**

The Task Force has identified several efficiency opportunities that may be available through managed competition. The City is currently conducting a managed competition process for **printing services**, with the outcome to be known by January of 2003. As discussed above, certain **FAX services** may benefit from a managed competition process, although a Regional Joint Powers Authority may be the best road to achievement of Transit efficiencies. **Information Technology, Residential Solid Waste collection, the Convention Center** and Certain **Public Works** activities may also yield efficiencies through managed competition.

**12. Explore Outsourcing Opportunities.**

Many City departments already outsource some of their activities. The Task Force recommends that outsourcing be used more aggressively across all City departments. **Utilities Billings and Collections** would appear to present an excellent opportunity for cost efficiencies through outsourcing. Certain **Parks and Recreation** activities, may lend themselves to outsourcing. Subject to the comprehensive assessment of **Information Technology** proposed under Recommendation # 19, below, consideration should be given to the delivery of IT services via outsourcing (applicable if only a portion of the IT services are to be sourced from the private sector) or managed competition (applicable if the majority of IT services are opened to delivery by the private sector).

**13. Explore Regional Joint Power Authorities**

The Task Force believes that the three most promising areas for metropolitan cooperation through JPA's are **Economic Development, Transit and Wastewater Treatment**. As indicated earlier in this report, successful efforts in economic development are generally characterized by cooperative efforts of all the major stakeholders in a metropolitan area. Working groups should be assembled involving the appropriate stakeholders in economic development as well as Transit and Wastewater Treatment. Other potential candidates are small JPA's in the **Fire Department**, certain activities in **Public Works**, and the **Convention Center**.

**14. Explore Public-Private Partnerships**

Public-Private partnerships have been particularly effective in the areas of **Housing and Economic Development**. Opportunities also exist in certain **Parks & Recreation** activities.

**15. Explore Re-Engineering Opportunities**

All city departments can potentially benefit from re-engineering the approach they take to service delivery. Departments are encouraged to do research and establish contact with their peers in the "best-managed" cities in the nation to seek ideas that can be implemented locally.

**16. Expand Volunteer support opportunities throughout City Operations.**

The newly created Fresno Citizen Corps creates an opportunity for large numbers of volunteers to provide support to Fresno's public safety agencies and free up sworn officers and firefighters to perform mission-critical activities. The Citizen Corps should also be used by other city organizations to recruit volunteers who will enable the City to do more with less. Whether it's done through the Citizen Corps or other avenues, all departments should set targets for bringing volunteers into their organizations.



**Investment Plan**

The Task Force believes that a multi-year investment plan must be developed to address the City's structural unemployment, to revitalize the City's downtown area, to restore certain city facilities and equipment to appropriate standards, and to invest in productivity-related technology.

**17. The Mayor should lead the development of a comprehensive metropolitan strategy to create 25,000 to 30,000 net new jobs in five years.**

The need to reduce Fresno's unemployment has major social and economic implications. The social implications require no elaboration. Economically, the implication of success is the creation of a larger tax base that will enable the City to continue to service the needs of its citizens, while the implication of failure is the requirement for more and more police services and the squeezing of all other General Fund services delivered by the City. Although City government and several other stakeholders in the community are pursuing initiatives to help address this issue, it is the perception of the Task Force that the overall effort is fragmented, disjointed and under scale. A more effective approach is required. Successful economic development efforts in Cities such as Austin, Texas, Cleveland, Ohio and San Diego, California, have been characterized by (a) **bold objectives**; (b) **well defined strategic focus**; and (c) **wide-ranging metropolitan cooperation**. For Fresno County to reduce its unemployment to the median level of its peers will require the creation of at least 25,000 net new jobs in the next five years, in contrast to the current situation where we have lost net jobs over the prior year in spite of economic development efforts.

To provide the sense of urgency that is required, the Task Force proposes that a Metropolitan **Jobs Task Force** be established to develop a comprehensive Jobs strategy, and that a **Jobs Summit** be scheduled approximately six months from this issuance of this report. A draft strategy would be unveiled at the Summit and fine-tuned during the course of the Summit. All institutions and key leaders who have economic development, job creation and/or job training responsibilities would be invited to participate. The success of the proposed summit will be dependent on **marshalling all stakeholders behind a single plan** and the assignment of **clear responsibility and accountability** for achievement of the plan, following the conclusion of the summit.

**18. A comprehensive assessment should be conducted of the resource requirements of the Fire Department and Public Works.**

The Task Force identified significant deferred maintenance issues in the Fire Department and Public Works. The implications of this deferred maintenance should be analyzed, quantified and communicated to the Mayor and City Council with appropriate recommendations for corrective action. Staffing of the Fire Department should also be fully analyzed, so the implications on operating efficiency, response time and fire insurance rates are fully understood and appropriate action taken.

**19. A Strategic Plan should be developed for the Information Technology Department, identifying customer service requirements, resource needs, and means of service delivery.**

As stated earlier in this report, the IT department has spent most of the past 18 months without a director. There are anecdotal indications of customer dissatisfaction with IT services. Perhaps as a result, independent pockets of IT have been formed within the City organization, separate from the IT department. Several studies have been done of the Information Technology Department in recent years. None, however, has painted a clear strategic direction for the Department. The Task Force recommends that a plan be developed, beginning with benchmarking of IT services against cities that have a reputation for strong IT capabilities. This should be followed with a clear specification of the services to be performed by the city IT department and the resources and organization structure required to implement these services. An analysis of alternative means of service delivery should also be conducted, comparing the current method to managed competition or outsourcing. The new IT Department director has initiated action on this recommendation.

**20. The Mayor and City Council should seek consensus on a multi-year plan for allocation of the City's resources.**

Currently and historically, allocation of the City's resources has taken place as part of the annual budget process. This approach tends to cause City Government to focus on the short term. While both the Mayor and City Council have long-term objectives for the City, these objectives all too often fall victim to the political pragmatics of getting the annual budget passed. While the symptoms of a city's problems can be treated through annual appropriations, treatment of the underlying problems generally requires a longer-term commitment. The current approach has resulted in an ever-increasing use of the General Fund for public safety expenditures, while treatment of the underlying unemployment problem has suffered from lack of resources.

**21. Any new revenues required to implement the City's investment plan should be from sources that help diversify the City's revenue Base.**

It is unlikely that the cost efficiencies proposed in this report will free up sufficient new capital to enable the city to launch an adequately funded investment plan. Debt should be used sparingly in a City that already carries twice as much debt per capita as its peers. New sources of revenue are, therefore, likely to be required. Fresno could generate an additional \$120 per capita in revenues – more than \$50 million Citywide – and still be below the median of its peers. Even if one were to normalize for Fresno's lower per capita income, the City could raise \$50 per capita – \$20 million Citywide – in new revenues and still be below the median of its peers on an adjusted basis.

The Task Force believes that the best way best way to generate more revenue is through economic growth, but Fresno's opportunities for sound growth are currently constrained by the underlying problems discussed above. Correction of these problems will require some up-front investment. The amount of that investment cannot be determined until a Jobs strategy has been fully developed

and costed and the City's deferred maintenance problems are more fully understood and costed. To the extent that the required investment exceeds the revenues available through the efficiency improvements recommended in this report, which the Task Force believes is likely, new revenues will need to be generated. The Task Force feels any such new revenues should (a) principally be raised by broadening the revenue base via a Utility User Tax, special assessment districts, or some combination of the foregoing; and (b) earmarked for the specifically intended investment objectives.

The Task Force further recommends that current business taxes be evaluated and reviewed to determine their impact on job creation and retention.

### **General**

**22. The contents of this report should be effectively communicated to the Citizens of Fresno.**

Some of the findings of this report were surprising to the Committee; among them, the extent to which Fresno's revenues and expenditures fall below those of its California peers and the degree to which public safety expenditures are squeezing the City's ability to provide other services and solve its underlying problems. If a consensus is to be formed in support of the recommendations offered in this report, the Citizens of Fresno must be made fully aware of these findings.

**23. A Progress report on implementation of these recommendations should be issued bi-annually by the City Manager.**

This report was prepared at the request of Mayor Alan Autry. It is, of course, up to the Mayor to accept or reject these recommendations. To the extent the recommendations are accepted, the City Manager should submit a bi-annual progress report over the next two years, with a decision on subsequent reporting to be made at the end of the two-year period.

### **Concluding Observations**

This report is a call to action. The Task Force recognizes it is proposing a daunting list of recommendations to add to other important and on-going activities of City Government, but the times demand more than business-as-usual. There are, of course, alternatives not addressed in this report that may have value and even take precedence over some of the Task Force recommendations. One example might be a statewide ballot initiative to secure local government financing and protect local governments from State-level budget crises. However, the fundamental perspective of the Task Force is that the City of Fresno must take it upon itself to chart its own future and not place undue dependence on the actions of others nor to allow itself to be intimidated by the assumption that what is must always be,

Other regions have reversed persistently high unemployment; Fresno can do the same. Other regions have cut high crime rates; Fresno can do the same. Other regions have

## **MEETING THE CHALLENGE**

successfully implemented bold economic development programs. Fresno can do the same. Success is largely a function of enlisting the support of the citizens the City aims to serve. The Task Force hopes this report will help generate that public support.

# Part VI

## Members of the Task Force

# Task Force on City Efficiencies and Revenues

Peter E. Weber (Chair)  
Mayor's Council of Economic Advisors  
Retired Senior Executive

Ken Newby  
Mayor's Council of Economic Advisors  
Managing Director, Deloitte & Touche, Fresno

Ruth F. Quinto  
Finance Director/City Controller  
City of Fresno

Timothy Lynch  
Budget Manager  
City of Fresno

Kathleen Eckerson  
Senior Budget Analyst  
City of Fresno

Staff  
**Adelina Acosta**, Administrative Assistant  
**Terri Saldivar**, Executive Assistant  
**Andrew Kucera**, MBA Intern

# Part VII

## Appendices

# Appendix A

## Glossary of Terms



## **Glossary of Terms**

### **Appropriation**

The legal authorization by the City Council and approved by the Mayor to make expenditures and to incur obligations for a specific purpose.

### **Assessment**

Revenue collected for City services which benefit properties in specific areas or districts.

### **Budget**

An annual financial plan consisting of proposed expenditures for specified purposes and the proposed means of financing them.

### **Capital Budget**

A financial plan of capital projects and the means of financing them for a given period of time.

### **Capital Improvement Plan (CIP)**

Generally a five-year plan which identifies all capital projects expected to be undertaken during a five-year period along with cost estimates, method of financing, and a recommended schedule for completion.

### **Debt Service**

Payment of interest and principal on an obligation resulting from the issuance of bonds and notes.

### **Department**

An organizational unit of government which may be subdivided into divisions.

### **Efficiency Improvements**

Generally, an improvement in a service provided by government to achieve cost savings without any noticeable impact on level of service.

### **Enterprise**

A governmental activity, generally contained within a separate department, which is self-supporting through fee and charge revenue.

### **Expenditure**

An expenditure is a payment for services, materials, salaries and products necessary for the operation of City government. Expenditures must be budgeted and appropriated.

### **Fees**

A general term used for charges levied by government for services which benefit a few. Legally limited to the costs of providing those services.

### **Fiscal Year**

A 12-month accounting period to which the annual budget applies; for Fresno, it is the period from July 1 through June 30.

### **Fund**

A separate, independent accounting entity with its own assets, liabilities and fund balance.

— **General Fund** B The City's principal governmental operating account, which is supported by taxes and fees.

— **Other Governmental Funds** B These funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for

specific purposes, e.g., Gas Tax Fund, Traffic Safety Fund, Operating Grant Fund, etc.

- **Enterprise Funds** B These funds are used to account for operations, for which it is the stated intent, that costs of providing services to the general public on a continuing basis be financed or recovered primarily through user charges.
- **Central Service Funds** B A fund which provides services to all City departments and bills the various other funds for services rendered. In Fresno these also generally operate as Internal Service Funds, e.g., Finance, City Attorney, etc.
- **Internal Service Funds (ISF)** B These funds are used to provide services to all City departments on a cost-reimbursement basis, e.g., Risk Management Fund, Fleet Services Fund, etc.
- **Trust Funds** B These funds are used to account for assets and activities restricted to a specific purposed in accordance with a trust agreement.

### **General Fund**

The City-s principal operating account, which is supported by taxes and fees and generally has no restrictions on their use. Expenditures may be described as discretionary and non-discretionary.

### **General Government Central Services**

A term developed for this report to include those City services which are Internal Service Funds (ISF-S) and Central Service Funds that in many Cities are funded out of the General Fund (i.e. Finance and City Attorney), as well as those Departments that are funded out of the General Fund, such as the City Manager, City Clerk, Mayor and Council.

This new grouping was developed to allow comparisons with other Cities with different Fund and organizational structures.

### **Grant**

A contribution by a government of other organization to support a particular function. Grants may be classified as categorical or block, depending on the amount of discretion allowed by the grantee.

### **Inter-governmental Revenue**

Revenue disbursements from other agencies such as State Motor Vehicle In Lieu Tax (VLF) and revenue reimbursements for services provided to other agencies.

### **Performance Measurements**

Statistical measures which are collected to show the impact of dollars spent on City services.

### **Revenue**

Income received by the City government from sources such as taxes, fees, licenses, grants and fines which is used to pay for services provided.

### **Taxes**

Compulsory charges levied by government to finance services performed for the common benefit. Generally includes property taxes, sales taxes, franchise taxes, business license taxes, utility user taxes, real property transfer taxes, and transient occupancy taxes.

# Appendix B

## A Primer on California City Finance

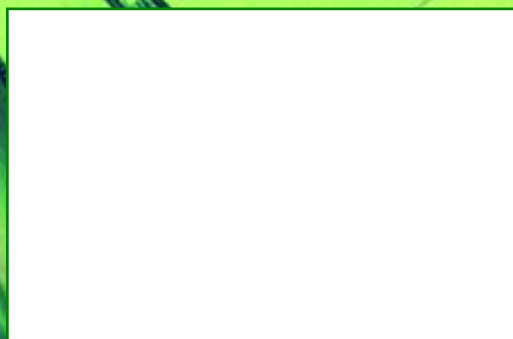
W E S T E R N

# City

League of California Cities

November 2002

## SPECIAL REPORT



# A Primer on CALIFORNIA CITY FINANCE

by Michael Coleman

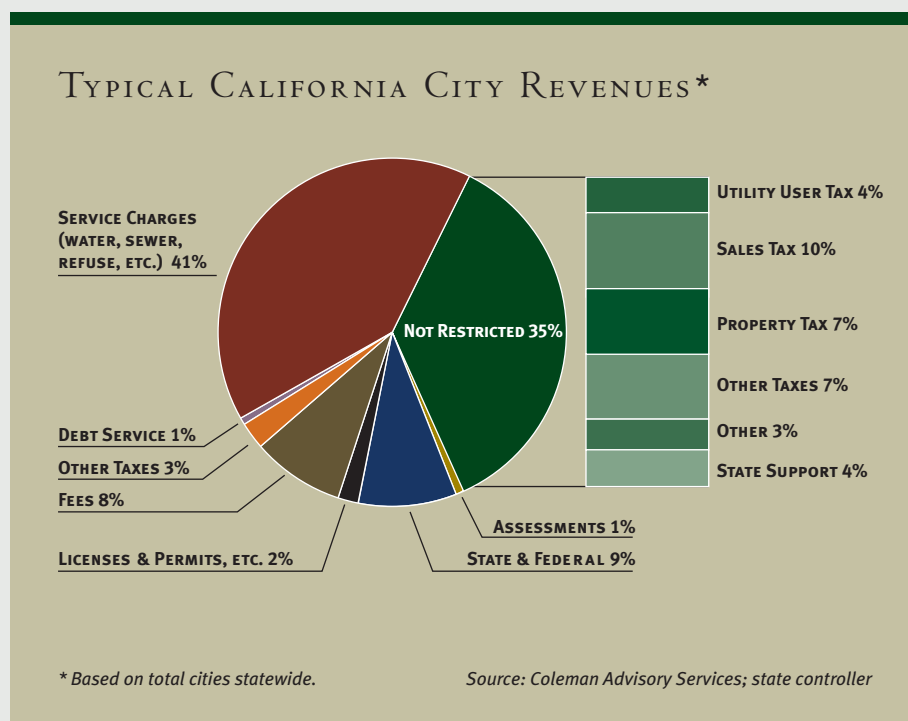
***Y**ou've been elected to the city council. You already know that the question of money arises for every local issue. So how does your city pay its bills? While every city is different — each with its own needs, local economy, expectations, protocols, responsibilities and finances — the essential elements of city revenues and spending are the same throughout California.*

## An Overview of City Revenue Sources

City officials may ask, what money does our city get and how is it spent? Revenue, the bread and butter of city budgets, comes from a variety of sources. Some is restricted to certain uses by law. Some revenue is payment for a specific service by customers. Other revenue requires voter approval for rate increases. Still other revenue comes from state and federal agencies, and the city has no control over how much it receives. The California Constitution and state law provide some specific distinctions between municipal revenue sources.

### Taxes

A tax is a charge for public services and facilities that provide general benefits. There need not be a direct relation between an individual taxpayer's relative



Michael Coleman is principal of Coleman Advisory Services and fiscal consultant to the League. Computations presented in this article are provided by Coleman Advisory Services, based on data from state controller reports. More information on city finance can be found on Coleman's website at [www.californiacityfinance.com](http://www.californiacityfinance.com).

benefit and the tax paid. Cities may impose any tax not otherwise prohibited by state law (Gov't. Code section 37100.5). However, the state has reserved a number of taxes for its own purposes, including taxes on cigarettes, alcohol and personal income.

The California Constitution distinguishes between a general tax and a special tax. General tax revenues may be used for any purpose. A majority of voters must approve a new general tax or increase. Special tax revenues must be used for a specific purpose, and two-thirds of voters must approve a new special tax or its increase.

### ***Fees, Charges and Assessments***

As distinguished from a tax, a fee is a voluntary charge imposed on an individual for a service provided to that person. A fee may not exceed the estimated reasonable cost of providing the particular service or facility for which the fee is charged, plus overhead. Cities have the general authority to impose fees (charges and rates) under the cities' police powers granted by the state Constitution (Article XI, section 7; Proposition 218). There are specific procedures in state law for fee and rate adoption. Prop. 218 provides special rules for property-related fees used to fund property-related services. Examples of city fees include water service, sewer service connection, building permits, recreation classes and development impact fees.

Assessments are charges levied to pay for public improvements or services within a predetermined district or area, according to the benefit the parcel receives from the improvement or services. The rules and procedures for assessments are provided by the California Constitution, Article XI, section 7 (Prop. 218).

### ***Intergovernmental Revenue***

Cities also receive a substantial amount of revenue from other government agencies, principally the state and federal governments. These revenues include general or categorical support monies called "subventions," as well as grants

for specific projects, and reimbursements for the costs of some state mandates. Intergovernmental revenues provide 13 percent of city revenues statewide.

charged for specific services, and fee revenue can fund only those services and related expenses. To comply with these laws and standards, finance departments

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**In the early 1990s, the state experienced a recession and budget deficit. To offset its fiscal shortfall, the state shifted property tax revenues from cities to local schools. This ERAF shift continues today.**

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### ***Other City Revenues***

Other sources of revenue to cities include rents, concessions and royalties; investment earnings; revenue from the sale of property; proceeds from debt financing; revenues from licenses and permits; and fines and penalties. Each type of revenue has legal limitations on what may be charged and collected, as well as how the money may be spent.

### ***Putting Money in Its Place***

Many types of city revenues are restricted by law to certain uses. For example, a special tax is levied for a specific program. Some subventions are designated by law for specific activities. Fees are

segregate revenues and expenditures into separate accounts or funds. The three most important types of city funds are special revenue funds, enterprise funds and the general fund.

***Special revenue funds*** are used to account for activities paid for by taxes or other designated revenue sources that have specific limitations on use according to law. For example, the state levies gas taxes and subvenes some of these funds to cities and counties. A local government deposits gas tax revenue in a special fund and spends the money for streets and road-related programs, according to law.

*continued*

## **CITY RESPONSIBILITIES DIFFER**

Comparing revenues and expenditures of different cities can be difficult, because cities vary according to the needs of their constituents and the nature of the local economy, as well as the service and financial responsibilities of the city. Fewer than 25 percent of California cities are full-service cities, responsible for funding all of the major city general-fund-supported services such as police, fire, library, parks and recreation, and planning.

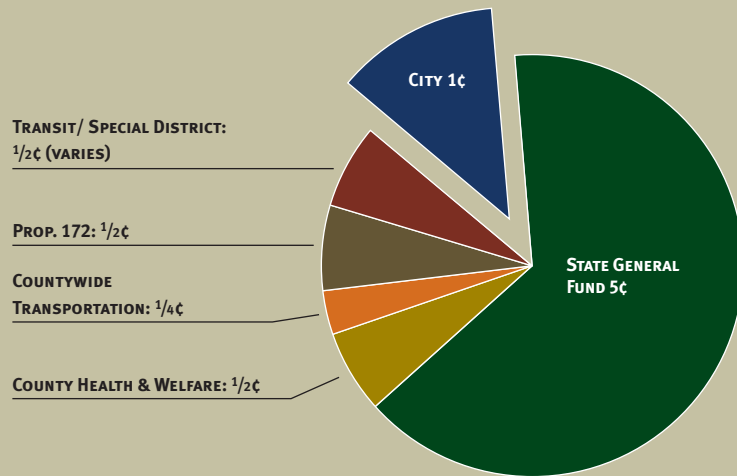
In about three out of 10 California communities, a special district provides fire services with property tax revenue that would otherwise go to the city. In six out of 10 cities, library services are provided and funded by another public agency.

On the revenue side, these differences in financial responsibility among cities are generally reflected in the allocation of property tax revenue. Other city tax rates and allocations are unrelated to service responsibility.



## SALES TAX: HOW MUCH GOES TO YOUR CITY?

For each taxable dollar spent, sales tax is paid as follows:



### NOTES

1. California sales tax revenues are distributed based on the place (“situs”) where each sale occurs.
2. Cities receive about 6 percent and counties get 94 percent of Prop. 172 funds. The funds are restricted for public safety services, such as police, fire, district attorneys and jails.
3. The state sales tax rate is 5.5 percent, but 0.5 percent is sent directly to county health and welfare programs.
4. The city portion of sales tax goes to the county if the sale transaction occurs in an unincorporated area of the county.
5. Most counties and a few cities impose additional rates, most commonly for transportation, ranging from 0.25 percent to 1.25 percent. These additional rates cause the total California sales tax to vary from 7.25 percent to 8.5 percent.

Source: California State Board of Equalization, Coleman Advisory Services

## Major City Revenues

**Sales and Use Tax.** The sales tax that an individual pays on a purchase is collected by the state Board of Equalization and includes a state sales tax, the locally levied “Bradley Burns” sales tax and several other components. The *sales tax* is imposed on the total retail price of any tangible personal property. (State law provides a variety of exemptions to the sales and use tax, including resale, interstate sales, intangibles, food for home consumption, candy, bottled water, natural gas, electricity and water delivered through pipes, prescription medicines, agricultural feeds, seeds, fertilizers and sales to the federal government). A *use tax* is imposed on the purchaser for transactions in which the sales tax is not collected. Sales and use tax revenue received by cities is general purpose revenue and is deposited into a city’s general fund. Although cities vary widely, on average, sales and use tax revenue provides 30 percent of city general purpose revenue, and often as much as 45 percent.

**Property Tax.** The property tax is an ad valorem (value-based) tax imposed on real property and tangible personal property. (State law provides a variety of exemptions to the property tax, including most government-owned property; nonprofit, educational, religious, hospital, charitable and cemetery properties; the first \$7,000 of an owner-occupied home; business inventories; household furnishings and personal effects; timber; motor vehicles, freight and passenger vessels; and crops and orchards for the first four years). California Constitution Article XIII A (Prop. 13) limits the property tax to a maximum 1 percent of assessed value, not including voter-approved rates to fund debt. The assessed value of property is capped at the 1975–76 base year rate plus inflation — or 2 percent per year. Property that declines in value may be reassessed at the lower market value. Property is reassessed to current full value upon a change in ownership (with certain exemptions). Property tax revenue is collected by counties and allocated according to

A majority of voters must approve a new general tax or increase. Special tax revenues must be used for a specific purpose, and two-thirds of voters must approve a new special tax or its increase.

**Enterprise funds** are used to account for self-supporting activities that provide services on a user-charge basis. For example, many cities provide water treatment and distribution services to their residents. Users of these services pay utility fees, which the city deposits in a water enterprise fund. Expenditures for water services are charged to this fund.

**The general fund** is used to account for money that is not required legally or by sound financial management to be accounted for in another fund. Major sources of city general fund revenue include sales and use tax, property tax, the vehicle license fee subvention from the state, and local taxes, including business license tax, hotel tax and utility user taxes.

state law among cities, counties, school districts and special districts.

The share of property tax revenue allocated to a city varies depending on a variety of factors, including:

- The service responsibilities of the city (for example, if fire services are funded and provided by a fire district, then the district gets a portion that would otherwise go to the city);
- The presence of a redevelopment agency, which retains a portion of revenue growth; and
- The historic (1980) tax rates of the city in relation to other local taxing entities.

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**In the typical full-service city, two out of three of its discretionary dollars are spent on police and fire services.**

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Of course, local assessed property values also affect revenue levels. Property tax revenue accounts for 20 percent of general revenue for the average full-service city. For cities that do not fund fire service, property tax revenue represents 15 percent of general revenue, on average.

#### ***The Motor Vehicle License Fee (VLF).***

The VLF is a tax on the ownership of a registered vehicle in place of taxing vehicles as personal property. (Vehicles that are exempt from VLF include government-owned, diplomatic, civil air patrol and farm vehicles; privately owned school buses; and vehicles owned by blind or amputee veterans. Various classes of specialized vehicles are exempt but are instead subject to the property tax. These include farm trailers, privately owned firefighting vehicles and forklifts.) Since 1948, the VLF tax rate had been 2 percent. In 1998, the Legislature and

*continued*

## THE EFFECTS OF PROPOSITION 13

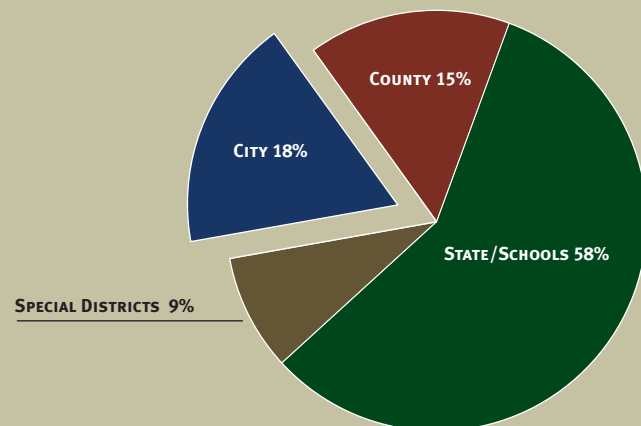
Proposition 13 produced the following results:

- Elderly and low-income homeowners' tax burden has decreased;
- Similarly situated properties are taxed differently;
- Local government property tax revenues were cut by 60 percent;
- Personal income is higher as a result of reduced property taxes. Revenue windfalls from personal income tax produce \$1 billion for the state and \$1.6 billion for the federal government annually;
- Cities and counties raised user fees and local taxes;
- The authority to allocate local property tax shifted to the state;
- Counties and schools (especially) rely more heavily on the state general fund and a commensurate shift in power;
- Cities rely more heavily on other general revenues, including locally imposed taxes and the sales and use tax; and
- Tax rates/shares (from 1980) are now out of sync with service demands.

## PROPERTY TAX: HOW MUCH GOES TO YOUR CITY?

The allocation of property taxes to government agencies varies among different areas, depending on historic (pre-Prop. 13) property tax levels and which services are provided by agencies in your area.

On average, a California city resident's property tax revenues are distributed as follows:



### NOTES

1. This is the rate for the average city for properties *not* in a redevelopment area. Results vary depending on the extent of services provided by the city. Full-service cities may receive slightly more. Cities in which fire services are provided by a special district receive less, with the difference going to the fire district.
2. If a person resides in the unincorporated area of a county, the county receives both the city and county portions of the property tax.

*Source: California State Board of Equalization, Coleman Advisory Services*



governor began cutting the tax, backfilling the loss to local governments with a like amount of state general fund money. The effective rate is now 0.65 percent. The VLF is collected by the state Department of Motor Vehicles and allocated to cities and counties according to law (after retaining several hundred million dollars for the administrative costs of state agencies). Most of the allocation to cities is based on population and provides 16 percent of general revenues to the average city budget, and often as much as 24 percent. Of the \$1.6 billion that will go to cities in FY 2002–03, about one-third is from actual VLF paid by vehicle owners and two-thirds is from the state general fund backfill.

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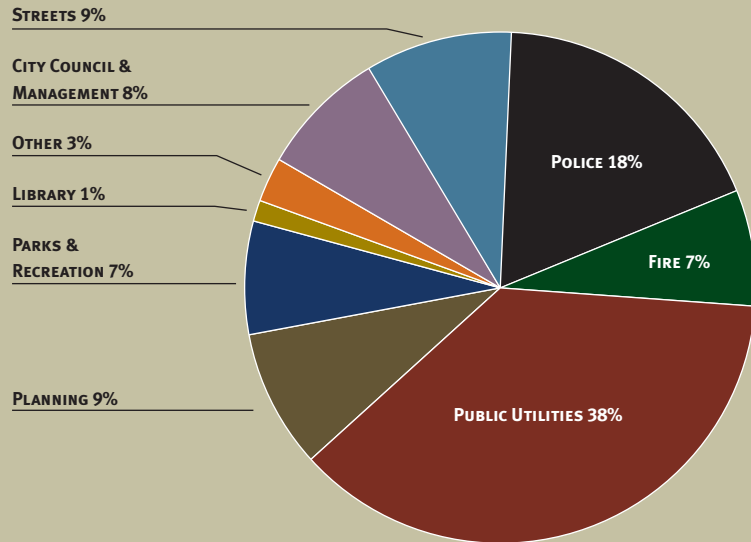
Property tax revenue is collected by counties and allocated according to state law among cities, counties, schools and special districts.

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**Business License Tax (BLT).** Most cities in California levy a business license tax. Tax rates are determined by each city, which collects the taxes. In all cases, cities have adopted their tax as a general tax. On average, the business license tax provides about 3 percent of city general revenue, and often as much as 6 percent.

**Transient Occupancy Tax (TOT).** Like the business license tax, TOT may be levied by a city under the police powers granted cities in the state constitution. More than 380 cities in California impose TOT on people staying for no more than 30 days in a hotel, inn or other lodging facility. Rates range from 4 to 15 percent of the cost of the lodging. In nearly all cases, cities have adopted these as general taxes, but some cities make a point of budgeting the funds for tourism or business-development-related

## TYPICAL CALIFORNIA CITY SPENDING



### NOTE

Based on statewide totals of city spending. The percentage expenditures of individual cities vary. For example, more than 300 cities do not fund or provide library services, and more than 170 cities do not fund or provide fire service. Because this chart displays a statewide average, those cities that do provide these services typically spend a larger percentage of their budget on library and fire services than shown here.

Source: State controller

## THE EFFECTS OF THE ERAF PROPERTY TAX SHIFTS

In the early 1990s, the state experienced a recession and budget deficit. To offset its fiscal shortfall, the state shifted property tax revenues from cities to local schools (a state action that was enabled by a provision of Proposition 13). The legislation that created this shift established the Educational Revenue Augmentation Fund (ERAF), and relieved some of the state general fund obligation for school funding.

Today, the ERAF shift continues to dramatically affect city revenues and the fiscal health of cities:

- In FY 2002–03 this is, in effect, a \$4.9 billion shift of city, county and special district revenue to the state general fund;
- City property tax shares are reduced by an average of 24 percent; and
- Prop. 172 and Citizens' Option for Public Safety (COPS) grants return only about 28 percent of the city revenue lost due to ERAF.

## TRENDS IN CALIFORNIA CITY FINANCE

The following list summarizes trends in California city finance.

- Decline of property tax revenue due to Proposition 13 and ERAF. In 1976, property tax revenues provided 15 percent of total city revenues; in 2000, they provided only 7 percent of total city revenues;
- Decline of state and federal aid to cities. State and federal money to California cities is down from 21 percent in 1974–75 to 13 percent today;
- Decline of sales tax base due to a shift toward a service-oriented economy and increasing Internet and catalog retail sales;
- State intrusion into local policy, including unfunded mandates;
- Limitations on taxes and fees that cities can impose, driven by Prop. 13, Prop. 218 and other state laws;
- State population growth is higher in cities;
- Cities must respond to citizens' demand for a greater array of services that bring with them additional costs and new challenges (high tech, cable, transit, etc.);
- Public safety spending is up; and
- Infrastructure improvements and maintenance are lagging.

Source: Computations by Coleman Advisory Services with data from state controller reports

programs. The TOT provides 7 percent of a city's general revenues on average, and often as much as 17 percent.

**Utility User Tax (UUT).** More than 150 cities, collectively representing a majority of the state's population, impose a utility user tax. UUT rates vary from 1 to 11 percent and are levied on

the users of various utilities, depending on the local ordinance and including telephone, electric, gas, water and cable television. For those that impose the UUT, it provides an average of 15 percent of general revenue, and often as much as 22 percent.

### ***Enterprise Service Charges and Fees.***

Service-fee-supported city utilities and enterprises constitute a substantial portion of most city budgets. These include water, sewer, electric, solid waste, harbor/marina and airport services. In some cities, a public or private agency other than the city provides and funds these services.

### **Most Discretionary Dollars Go to Public Safety**

In most cities, roughly two-thirds of the total city budget is either earmarked for specific purposes (such as special taxes, restricted state grants and debt obligations like bonds) or is fee revenue used to pay for services provided. Of the remaining discretionary funds, in the typical full-service city, two out of three dollars are spent on police and fire services.

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Each type of revenue has legal limitations on what may be charged and collected, as well as how the money may be spent.

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### **And There's More ...**

City budgets can be bewildering. Myriad laws and limitations make city funding a very complicated subject. But it's critical for any city decision-maker to understand the essentials of city finance. What's more, elected officials find that their job is made easier when they are able to explain the basic elements of municipal finance to their constituents. ■

## FOR MORE INFORMATION

Further information about city finance is available from these online sources:

*California Local Government Finance Almanac*  
[www.californiacityfinance.com](http://www.californiacityfinance.com)

*Primer on California's Tax System*  
Legislative Analyst's Office  
[www.lao.ca.gov/2001/tax\\_primer/0101\\_taxprimer.pdf](http://www.lao.ca.gov/2001/tax_primer/0101_taxprimer.pdf)

*The Fiscal Condition of California Cities 2001*  
Institute for Local Self Government  
[www.ilsf.org/doc.asp?intParentID=275](http://www.ilsf.org/doc.asp?intParentID=275)

In addition, the following publications are available from CityBooks. To order, call (916) 658-8257.

*Municipal Revenue Sources Handbook 2001*  
League of California Cities  
\$25; Item No. 1031.

*Local Government Dollars & Sense* by Len Wood  
\$30; Item No. 105.

## ONLINE LEARNING: MUNICIPAL FINANCE BASICS MADE EASY

Elected officials can now take advantage of online learning opportunities provided by the League. "Guardians of the Public Checkbook: The Basics of Municipal Finance" is available at [www.cacities.org/ed](http://www.cacities.org/ed). Based on the book *Local Government Dollars & Sense* by Len Wood, this course is designed to provide a basic understanding of municipal finance, including various funds and their uses, the different types of budgets and how to review them, and more.

# WHY SHOULD YOU JOIN THE CAMPAIGN TO PROTECT LOCAL SERVICES AND REVENUES?

“Fool me once, shame on you. Fool me twice, shame on me.” As the state faces its most brutal fiscal crisis in a decade, this old saying underscores that there has never been a more critical time for you to get involved in the League’s campaign to protect city services and revenues from state raids. After all, the property tax raid by the state started in the early 1990s, and the amount taken from local units increases every year. We can’t afford to let it happen again. If you get involved, it won’t.

Although the outcome of the 2002-03 budget debate was largely positive for cities, we can’t take it for granted. That experience taught us that we can succeed if we start early, work harder than others, and build our LOCAL (Leave Our Community Assets Local) partnership with county, special district, labor and business groups. The key to winning this fight, however, is you. No one can do it but you, and in the long run, it may be your most important role as a city official.



Chris McKenzie  
Executive Director  
League of California Cities

## WHAT TO DO NEXT

**Learn More.** Additional resources are available through the League, including:

- *Municipal Revenue Sources Handbook 2001*;
- *The Fiscal Condition of California Cities 2001*; and
- *Proposition 218 Implementation Guide*. Ordering information is listed on the previous page under “For More Information.”
- Presentations, articles, and more through [www.cacities.org](http://www.cacities.org)
- “Guardians of the Public Checkbook: The Basics of Municipal Finance” is an online municipal finance education program available for city officials at [www.cacities.org/ed](http://www.cacities.org/ed).

**Get to Know Your City’s Unique Fiscal Environment.**

- Learn about your city’s fiscal situation.
- Provide the League with real-life stories of how your city is managing its fiscal resources. Contact the League’s Revenue and Taxation Legislative Representative Jean Flournoy Korinke; phone: (916) 658-8245; e-mail: [<jkorinke@cacities.org>](mailto:jkorinke@cacities.org).
- Use information provided by the League to develop your own fact sheets about how state-level fiscal decisions affect services in your city. Explain the state’s actions in local terms.
- Educate your citizens about the services your city provides and how they are paid for.

**Become an Advocate.** Your participation is critical as local fiscal issues are debated in the state Capitol.

- Help to educate your legislators on the fiscal situation of your city. Contact your local League regional representative to volunteer for this and other efforts. Find your regional rep’s contact info at [www.cacities.org](http://www.cacities.org).
- Take action on League alerts that you receive throughout the legislative session. By sending e-mails and letters, you can increase the strength of your region’s voice.
- Attend the League’s Legislative Action Days in Sacramento and its Legislative Briefings. More information is available at [www.cacities.org](http://www.cacities.org).

# Appendix C

## Best Practices

### Examples

CITY OF ATLANTA, GA  
Mayor Bill Campbell

**BEST PRACTICES – CASE #1**

**Best Practice Recognition  
The City of Atlanta and United Water Services Atlanta  
Privatization of Water Services**

In 1997, the City of Atlanta faced a financial crisis with its water system. Upgrading the aging system to new state-mandated standards was projected to add an overwhelming 81% to existing water rates. Not surprisingly, Atlanta's citizens and local businesses voiced strong opposition to the proposed rate increases. As a result, the City of Atlanta embarked upon operational and cost-saving evaluations of its water and wastewater systems.

Atlanta Mayor Bill Campbell opted to form a public/private partnership to oversee new investment and management of the city's water system. After a year-long selection process, Mayor Campbell awarded a 20-year contract to United Water Services Atlanta (UWSA), a joint venture of United Water Services and the local engineering firm of Williams-Russell & Johnson. Starting January 1, 1999, UWSA assumed operational responsibility over the city's two water treatment plants; 12 water system storage tanks; 7 zone-transfer pumping stations; 25,000 fire hydrants; and 2,400 miles of water distribution mains. Additionally, UWSA has been given responsibility for managing billing, collections, and customer service. In total, UWSA serves 1.5 million residents over a 650 square-mile area.

From facing an 81% rate increase in 1997, Atlanta's water users can now expect to see a total of \$400 million in actual cost savings over the life of UWSA's contract. At the same time, service quality is expected to improve with the current \$4 million investment in a new computer system and software, and another \$5 million in planned system upgrades. In addition, United Water Services Atlanta is guaranteeing \$32 million in value-added operational services and \$46 million in added revenues to the city's enterprise fund.

To date, UWSA has successfully transitioned over 400 employees, doubled productivity in key areas, and established a One-Call Center for Customer Service. Employees are guaranteed existing jobs with wages and benefits equal to or exceeding those offered under public operation. Additionally, employees are being trained in new skills (over 6,500 staff training hours were provided in 1999).

United Water Services Atlanta shares the city's vision to significantly stimulate economic development and is committed to playing a positive role in the community. UWSA has actively supported the Atlanta Empowerment Zone (EZ) by establishing its regional headquarters within the EZ, establishing an Institute for Water Resources Development, adopting a local high school, and establishing college internships with the Atlanta University Center.

United Water is also committed to involving the local minority community. Williams-Russell & Johnson is now the most successful minority-owned engineering firm within the national water/wastewater privatization industry. Furthermore, after only 11 months of operation, UWSA has achieved levels of minority and female participation that are unprecedented for the City of Atlanta. For example, in November UWSA achieved 80% participation level for minority and female subcontractors and 42% for minority and female commodities/suppliers.

For more information, please contact:

Deb McGhee Speights  
United Water Services  
75 Piedmont Avenue, Suite 1190  
Telephone: (404) 221-0995  
Fax: (404) 221-9709  
E-mail: [dspeights@atlanta.uwservices.com](mailto:dspeights@atlanta.uwservices.com)

The United States Conference of Mayors  
J. Thomas Cochran, Executive Director  
1620 Eye Street, NW, Washington, DC 20006  
Telephone (202) 293-7330, FAX (202) 293-2352

## CITY OF INDIANAPOLIS

Former Mayor Stephen Goldsmith

## BEST PRACTICES – CASE #2

Best Practice Recognition  
The Case for Managed Competition

Stephen Goldsmith is the Chairman of Netgov.com, an Internet provider of e-government services. While serving two terms as Mayor of Indianapolis, he earned a national reputation for innovations in government. As Mayor of America's 12th largest city, he reduced government spending, cut the city's bureaucracy, held the line on taxes, eliminated counter-productive regulations, and identified more than \$400 million in savings. He reinvested the savings by putting more police officers on the street and implementing a \$1.3 billion infrastructure improvement program called "Building Better Neighborhoods." Indianapolis enjoyed record-breaking job creation and set a record pace for new construction under his leadership. Prior to his two terms as Mayor, Mr. Goldsmith was Marion County District Attorney for 13 years. In addition to serving as Chairman, he is also a partner with Baker & Daniels, an Indiana-based law firm and is a Special Advisor to U.S. President Bush on faith-based and not-for-profit initiatives. The following Q&A conveys his Best Practices view.

**Q:** *Why did you change your focus from privatization to competition at City Hall?*

**A:** *Privatization assumes that the private sector is inherently more effective, and we determined that public value comes from competition, and that private monopolies are not better than public monopolies. The competitive aspect drives value to the citizens.*

**Q:** *The City of Indianapolis uses a policy of managed competition to decide who will deliver municipal services. How does it work?*

**A:** *It is naïve to assume a city and its mayor, manager, and employees, are good at everything. No business is good at everything. Why is City Hall good at everything? The City Hall has a responsibility to provide services. Managed competition says that even with the city having responsibility, sometimes it can hire-out or tender out those services more effectively than it can produce them themselves. And managing the competition between the private and private and public sectors is one way to drive value.*

**Q:** *Why is it important to know the cost of a pothole?*

**A:** *Well, generally, government doesn't know the cost of an activity. It knows how much money it takes in and it knows how much money it sends out; but, it generally doesn't know how much it costs to take a picture in the microfilm department, to fill a pothole or to clean out so much water. Until you measure quality and cost per unit you don't really know if you are efficient.*

**Q:** *Why is it important to distinguish between inputs and outputs?*

**A:** *The government is really good at watching its inputs and coming up with ... schemes to watch those inputs. But, really what the taxpayer should insist on is not whether you can account for all the money you are spending ineffectively but what are your outputs? How much are you getting of what you want per dollar spent.*

**Q:** *How do you respond to the complaints by private vendors that in-house units have an unfair competitive advantage, i.e. they don't pay taxes?*

**A:** *They do have an advantage and that is usually about 25%; but even with that 25%, City Hall is often still too worried to compete out public services. So, I would say to the private sector -- you probably are going to have to be more than 25% better to win. Let's see if you can be -- and in many cases they are.*

**Q:** *How much did the competitive programs save Indianapolis taxpayers?*

**A:** *Probably the ten-year total is \$450 million.*

**Q:** *Does the union still support the competitive model?*

**A:** *The union leadership in Indianapolis that was anxious before see that their members have benefited in*

*terms of worker satisfaction, accidents, Workers' Comp and pay and have remained supportive.*

**Q:** *How did you handle managed competition for your water treatment plant?*

**A:** *The United States generally had government-operated plants; Europe and South America are usually done privately. We said to anybody in the world who is in this business - bid on the right to build and/or operate. The city can own it and somebody else can operate it or somebody else can own it and operate it or the city can own and operate it. It is really difficult for cities the size of Indianapolis and Winnipeg to have one plant to compete with international players that have hundreds of plants and a lot more available technology.*

**Q:** *Did the union support privatization of the water plant?*

**A:** *Well, originally, the unions opposed the privatization of the water plant for fear their workers would be adversely affected. The winning bidder actually took the union and most, if not all, of its employees and over time the employees who were there, their job satisfaction went up.*

**Q:** *How much did the city save by going this route?*

**A:** *About \$150 million over ten years.*

**Q:** *You increased the amount of on-street police. How and by how much?*

**A:** *The Police is a very complicated issue. I was a public prosecutor for a long time and the citizens' demand, appropriately, safety. There are various ways to increase on-street policing. Reduce the number of police officers who aren't - I'll ask the following question, if you are not investigating a crime and you are not on the street, what are you doing that helps those two and if what you are doing doesn't help the investigators and police officers on the street then you need to be on the street. So, every job that wasn't directly accomplishing that, we civilianized - which means we added civilians to the police department and/or we outsourced it. And we employed very significant amounts of technology, computers in the cars, etc.*

**Q:** *How many more police are on the street? Do you have a rough ballpark figure?*

**A:** *The best way I could measure it would be - 15 to 20%.*

**Q:** *Why is e-government such an attractive idea to you?*

**A:** *E-government is a way for citizens to go directly into the core of the bureaucracy and extract the information they want and the tools they need to get licensed and to not have to waste time standing in line at City Hall and not have to go from bureau to bureau - it is a very efficient way to reform.*

**Q:** *Can you estimate the savings for e-commerce?*

**A:** *Well, the savings are dramatic because the transaction costs are quite reduced. The person getting the permit obviously saves substantially, in terms of time value of money. But in Indianapolis, for example, you could take a mundane everyday permit and the person who wants the permit fills out the form and you don't have to deal with anybody. On the routine permits they get it back electronically and that means that the public employee can be re-deployed to work on the complicated permits which makes the efficiency go up there as well.*

**Q:** *Every city is trying hard to license home businesses and collect fees and so on. Can you comment on this within the context of creating a sensible regulatory climate for a city economy?*

**A:** *Well, I generally believe that regulations should be minimized to accomplish health and safety issues and not as a disguise for revenue or barriers to entry into business and, therefore, citywide business taxes tend to be counterproductive because they move out people in businesses.*

*The Frontier Centre for Public Policy*

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*FRONTIER CENTRE FOR PUBLIC POLICY BEST PRACTICES DATABASE*

*BEST PRACTICES – CASE #3*

*Best Practice Recognition*  
*Managed Competition – The Phoenix Experience*

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*In 1978 Ron Jensen was public works director of the city of Phoenix. He relates how the city stumbled into managed competition - a policy where in-house work units compete with private suppliers.*

Under managed competition, a public agency competes with private sector firms to provide public agency functions and services. Managed competition attempts to create a "level playing field" between the public and private sectors to select the most cost effective method of delivering public services. Managed competition is used by public agencies as an alternative to direct outsourcing and privatization.

It is my intent to provide a fair and balanced approach to the concept of managed competition. A prime concern is the integrity of the process and the credibility that can be obtained from fair and open competition. While I support a process for obtaining the best possible bid for a public agency, a "win at any cost" approach is not a primary goal.

The concept of managed competition is a management tool to be utilized in comparison with other alternative service delivery methods.

The process of public-private competition was initiated over 20 years ago and evolved into the current concept of managed competition. The City of Phoenix, Arizona became involved in a privatization effort in 1978 that ultimately evolved into a formal process of comparing bids from private firms with the City's costs in a bid format.

It all started as a result of the taxpayer's revolt in California that culminated with the passage of "Proposition 13" on the ballot. This taxpayer initiative had far reaching consequences that spread across the United States. The impact on the Phoenix City Council in Arizona was to stimulate an interest in privatization as a method of reducing municipal costs. As a result of this interest in privatization, the city council directed the city manager to evaluate all department activities in order to determine potential candidates for privatization. The action by the city manager was to request that all department heads review their operations and recommend those services that had potential for privatization activities.

One of the major activities to be considered was the collection of solid waste from residential customers. This in-house activity had been going through a major transformation from manual collection to automated collection. In fact, the concept of automated refuse collection originated in Scottsdale, Arizona and was implemented on a much larger scale by the City of Phoenix Public Works Department. In 1978, about 95% of the city had been converted to automatic collection and only approximately 10,000 homes were still collected with manual collection equipment.

Since the city was far ahead of the private sector in this technology, the only potential for privatization in the solid waste collection field was with the 10,000 homes still collected with manual collection equipment. In order to meet the city manager's request, the public works director submitted a report recommending that the manual collections area be put out for bids by private firms. This action generated strong opposition from the labor union, as there was a potential for lost jobs.

At the city council meeting when the privatization proposal was on the agenda for consideration, the Public Works Director, Ron Jensen, presented a staff recommendation to call for private bids for refuse collection services in the designated area. The union representatives in attendance voiced strong objections to the proposal. The city council, however, voted unanimously to proceed with staff recommendations in spite of union concerns. As the Public Works Director started to leave the council chambers, Mayor Margaret Hance had one final question; She asked: You will compare the private bids with the city's costs won't you? The Public Works Director's response was: "Mayor, we will bid it too". That was the beginning of what today is called managed competition.

While there wasn't enough time to develop a process of public-private competition for the first private contract for solid waste services, the process was started. The city manager brought in the city auditor and the details were worked out for a bidding process in which the city's costs would be prepared by the appropriate department and would be certified by the independent auditor before being compared with private bids in an open competitive process.

Over a period of time, the City of Phoenix was successful in developing a process of public-private competitive



bidding that achieved a high level of credibility. In a ten-year period between 1978 and 1988, the competitive process saved the city in excess of \$25 million. Initially the city lost one-half of the solid waste program to private firms, but by 1988, the city had won back all contracts and returned to 100% city provided residential solid waste collection services.

As a result of the city's successes, nationwide publicity was generated that was extremely favorable to the City of Phoenix. The Phoenix reputation generated interest by a number of other cities that requested information and visited Phoenix to learn more about the success story. Notable among these were Indianapolis, Charlotte, Philadelphia and Los Angeles. Each of these and many others utilized the Phoenix experience in developing their own approaches to public-private competition.

The theory of managed competition is based on the concept that competition is a driving force that will result in a high level of service at a lower cost. The term "Managed Competition" describes a process of public-private competition that is managed, in that every step to be followed is clearly defined and the roles of all participants in the process are understood.

The process involves a call for bids on the provision of public services in which private firms bid against the public agency in order to determine who can best provide the services at the lowest cost. Every effort is made to create "a level playing field" with the inclusion of all appropriate costs.

Public agencies have developed a number of different approaches to the process of managed competition. In some cases, the public agency bid is prepared by public employee labor unions or employee associations without direct involvement of management. In others, management prepares the public agency bid without the involvement or support of employees or organized labor.

Consultants experienced in the process have been utilized to provide support and guidance to those public agencies that are new to the use of managed competition or lack the staff resources to administer a program. Some consulting firms have specialized in this service and market their services on the basis of winning bids.

The most successful public agency bid processes, however, seems to involve both labor and management working together in a joint effort which utilizes new methods that challenge old non-competitive systems. This joint effort, if successful, improves morale, provides high service levels, and reduces costs. The creation of a labor-management team can be very effective in supporting efforts to become more competitive. In many cases a reengineering effort will be necessary before a public agency will be ready to successfully participate in the competitive bidding process.

The creation of a labor-management team requires a major effort on the part of both labor and management. Old relationships and practices that have developed over a period of time during an adversarial collective bargaining process must be set aside and a new cooperative relationship established. This will require give and take on both sides. This new team will now focus all its energies on being able to compete with challenges from private firms.

Managed Competition can be a very effective tool in providing the public agency's customers with the "highest level of services at the least possible cost".

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## COUNTY OF SAN DIEGO

## BEST PRACTICES – CASE #4

**CIO Magazine claims "If San Diego Succeeds at Becoming the Next Local Government to Pull Off a Multiyear, Meg-Million Dollar Outsourcing Arrangement, It'll also be the First"**

THE COUNTY OF San Diego has been pursuing a landmark, full-scale IT outsourcing contract with the Pennant Alliance, a four-vendor partnership led by Los Angeles-based Computer Sciences Corp. (CSC).

Prior to the seven-year, \$644 million pact being approved by the county's board of Supervisors on Oct. 26, 1999, the county had 350 employees and 100 contractors providing IT services. When the deal was done, the county expected that about 275 IT employees included within the deal's scope would pick up tools and transfer. A year later, only 220 made the move. Of those left, 42 employees quit early in the outsourcing discussion, 25 transferred to other county jobs, and 63 took advantage of a severance/retirement package that gave employees 20 percent of their annual salary or credit for two additional years of service toward retirement.

The contractors all found work elsewhere—some of them with the Pennant Alliance partners. An instant staffing shortage left the Alliance in the position of hiring roughly 100 replacement workers unfamiliar with the county and its antiquated systems. With this higher-than-expected turnover came a huge loss of institutional knowledge. Service levels dipped. County and Pennant executives expected system support and response times to slip during the transition, then pick up quickly. But voice, WAN and video system uptimes slipped well below the 99.8 percent uptime stipulated in the contract. In fact, they fell below pre-outsourcing levels.

Culture shock abounds on both sides of the county and Alliance partnership. Consider the county perspective: Suddenly, employees from throughout the county's dozens of agencies have to formally request and pay for IT assistance they used to get for free. And then consider the Pennant Alliance partners—CSC, Lucent Technologies, Pacific Bell and SAIC—which are used to conducting their business in relative privacy. Now every term of their multivolume contract is open for public inspection, and every misstep is a potential newspaper headline.

Make no mistake, there's a great deal of public interest in this project. It's not just another full-scale, soup-to-nuts outsourcing agreement. It's the biggest, broadest IT privatization pact ever entered into by a U.S. state or local government. Elected officials, agency employees and citizens have a vested interest in seeing whether outsourcing will transform San Diego County from a legacy-laden IT laggard to an efficient, effective e-government. Outside California, no state or county has ever outsourced technology on this scale.

IT executives and vendors nationwide have pegged San Diego County as the beta site for whether the regional government marketplace is a potential boom or bust.

"Typically, there are problems at the start [of an outsourcing engagement] during implementation," says Peter Bendor-Samuel, president of the Everest Group, a Dallas-based outsourcing consultancy, which has no stake in the San Diego deal. To get over the hump, he says, the Pennant Alliance must throw all available resources at the problem, and the county must continue to hold the vendors' feet to the fire—and not just to meet the contracted service levels.

### THE STAKES

Trying to mitigate the hurt for San Diego is Tom Boardman, the county's new CTO. "My job is to keep things from getting out of proportion," says Boardman, who was hired in August 1999, two months prior to the deal's approval. Formerly the director of applications development at AAA of Northern California, Boardman also used to work for MCI/Systemhouse, which was acquired by EDS. He has significant outsourcing experience; that's why he was hired to manage the contract in place of former San Diego CIO Graham Lynch, a longtime county employee who opted for early retirement when the deal was struck, then accepted a non-county position with Pennant vendor SAIC. "We've got to keep service levels above intolerable," Boardman says, aiming low.

Richard Jennings, the CSC vice president who heads the Pennant Alliance, knows what's at stake: "This is one of the most aggressive outsourcing engagements we've ever taken on." A longtime CSC executive who serves as vice president and general manager of the company's entire western region, Jennings appreciates the potential rewards

*of this deal. "We're very interested in the state and local government marketplace," he says. "We think it's going to be big." But Jennings also appreciates the risk, which he sums up quickly and coolly as, "having one of the most public outsourcing contracts fail."*

*Boardman has 20 senior managers and 10 project managers countywide overseeing the contract, which spells out 101 different service levels (for example, Pennant Alliance has four hours to fix and repair a broken PC once it's reported), 44 of which have financial penalties if they're not met. The maximum penalty is \$675,000 per month—"enough to get anybody's attention," Boardman says. The contract also has built-in checkpoints so that the county and Pennant Alliance alike can review and renew the contract at the end of each year or opt out (with penalties) if the deal looks undoable.*

## **SAN DIEGO'S VISION**

*San Diego County has a three-phase vision for how its deal with Pennant should work.*

**Phase 1.** By December 2000, replace the IT infrastructure, including telephones, desktop PCs, data network and disparate software applications. Implement the first countywide e-mail and voice-mail systems.

**Phase 2.** During Year 2, replace outdated administrative systems with two new ERP applications (PeopleSoft for HR, Oracle for finance), with the goal of creating a single data entry point for information that can be shared across all county agencies.

**Phase 3.** By Year 3, provide an Internet delivery channel for county services. Currently, the county does offer some online permit issuing, property tax payment and park reservations, but the plan is to put every possible county service online.

In addition, systems must be replaced, software standardized and two new ERP systems rolled out to improve financial and personnel processes. By mid-December 2000, the end of the contract's first year, San Diego County, the Pennant Alliance and all observers will have a good sense of where this deal is headed. If service levels improve and milestones are met, then everybody will be happy

## **FROM HERE TO THERE**

To appreciate the scope of this work, understand the county's starting point. When Boardman was hired, he inherited a 15-year-old phone system that suffered frequent outages; a ragtag army of 286 and 386 PCs that ran on 15-year-old legacy applications (some bought, some built—none standardized); a patched-together LAN that had been developed incrementally over time; and a veteran staff with little experience in leading-edge technologies. "We had basically mainframe people," Boardman says. "Our systems were written in the '70s and '80s and maintained by the people who created them."

The county Board of Supervisors was willing to spend money to update these antiquated systems, but not the estimated \$250 million it would have cost for a total IT makeover. As for staff, the county faced the classic government challenge: How do we compete with private industry? "Our salaries were 20 percent to 30 percent below the marketplace, and there was really no hope of getting better," Boardman says. "We were treading water very well, but treading water doesn't help an aging system or infrastructure."

Outsourcing was first discussed in 1996, when the county was entangled with bad debt similar to that which bankrupted Orange County. To get out of the hole, the county recruited a new chief administrative officer (CAO), Larry Prior, from TRW, the Cleveland-based global IT company. Prior believed in privatization. He initiated a managed competition program in which county agencies would compete with private industry for the right to perform certain public services. Prior's first target was the county's trash collection system, which was privatized in 1997 for \$180 million, saving the county roughly \$56 million, or enough to help balance the books. Soon after, Prior hired TRW colleague Helen Robbins-Meyer, who is currently the county's assistant CAO, to head a managed competition committee to seek out other privatization targets. That group quickly realized that IT was a great outsourcing candidate.

"We were looking at a future that did not have a technology base to sustain it," says Robbins-Meyer. "What kind of IT expert wanted to come work for the county? What was the career potential, the earning potential? We had some of the best [IT employees], but not 500 of the best."

In November 1998, Robbins-Meyer's team secured the Board of Supervisors' permission to study IT outsourcing. The group then retained the services of the Warner Group consultancy and Gordon & Glickson, a Chicago-based law firm that specializes in outsourcing. County officials knew where they wanted to go; the consultants knew how they could get there. Problem was, no state or county government had ever pulled off such an ambitious

outsourcing plan. There had been attempts—Connecticut's being the most recent try—but they all fell victim to politics or labor unions.

But San Diego County was different from Connecticut in several key ways—at least, that's what Prior and Robbins-Meyer believed. In Connecticut, the Democrat-controlled legislature opposed the Republican governor and his handpicked CIO at every turn. In San Diego, the county's five-member, nonpartisan Board of Supervisors was behind the outsourcing concept from the start. And, unlike Connecticut, where virtually all of the IT employees belonged to unions that opposed outsourcing on principle, only about 40 of the county's 500 IT employees belonged to the Service Employees International Union (SEIU).

The biggest hurdle Robbins-Meyer's team had to overcome was the skepticism of the various county agencies—Community Services, Health and Human Services, and dozens of others—whose employees didn't understand how paying an external supplier for IT services could ever result in cost savings. Mary Grillo, executive director of SEIU Local 2028, told *The San Diego Union-Tribune* last fall that she believed the Pennant proposal was too large and too risky. "We are the guinea pigs on this type of project, and everybody freely admits nothing has been done on this scale before," Grillo told the newspaper. "The county hasn't been able to effectively monitor its contracts thus far, and we don't believe it will be able to handle a project of this scope."

The key to securing the agencies' support was to sell outsourcing by promising improved service to the agencies. To gain public support, the county brought its case to the San

Diego County Taxpayers Association, a politically influential group with 1,800 members. Taxpayers generally support privatization efforts, believing they cut costs and reduce the public payroll. But because a deal like this had never been done before, citizens had every reason to be suspicious of this plan. "There was no constituency out there saying, 'You should outsource IT,'" says Scott Barnett, executive director of the association. "Most people don't even know what IT is; they just care about the level of services they receive." Upon reviewing the county's plan and decision-making process, the taxpayers association endorsed outsourcing as a risk worth taking. "I feel fairly confident that what they're doing will be better than the old system and that the taxpayers will get better quality of services," Barnett says. Certainly, his group is concerned about the initial service-level dips, but Barnett still supports the outsourcing initiative. "We'll be waiting to see if [services] improve as expected."

**Most people don't even know what I.T. is; they just care about the level of services they receive.**  
—SCOTT BARNETT,  
EXECUTIVE DIRECTOR,  
SAN DIEGO COUNTY  
TAXPAYERS  
ASSOCIATION

#### A CROWDED FIELD

The pennant alliance wasn't the only vendor partnership to bid for the San Diego County job. IBM and EDS also fielded impressive teams. And at first, the CSC-led Pennant team didn't stand out among its competitors. "All three vendors could do the job," says Lana Willingham, the deputy CAO who helped negotiate the contract with Pennant. "In the end, the Pennant Alliance seemed to want [the job] the most. They were more flexible in coming to terms [that is, willing to commit to tougher service-level agreements], and they also were able to create a good understanding of the path for us to move to e-government."

When the board gave the OK for signing a contract with the Pennant Alliance, opposition turned to outrage from employees who wanted nothing to do with being outsourced. "We had people who were used to county government and dedicated to public service," Robbins-Meyer says. "They were not interested in making some big company richer."

Boardman joined the county on Aug. 28, 1999, the day after the county selected the Pennant Alliance. He recalls vividly the anger directed his way at his introductory meeting with IS staff. "It was one hour and 45 minutes of hostility—one cynical, emotional, negative question after the next," Boardman says. Fueling the emotion, of course, was fear of the unknown—what did outsourcing mean to individual employees?

Between that meeting and late October, when a final pact was submitted for board approval, several things happened to allay people's fears. First, CAO Prior, who had developed a bitter relationship with county employees, returned to private industry. His successor, Walt Ekard, has a softer style and engendered far more trust from workers. Next, Boardman and his managers worked hard to educate county staffers on the benefits of working for a big-time IT services company: better pay, training, career options and a chance to work with bleeding-edge technologies. The Pennant Alliance, meanwhile, pledged to give all IT employees a 7 percent raise on Day 1, and then committed to keeping these people in San Diego for a minimum of two years. And those who didn't want to transfer could opt for the severance package or reassignment to other county offices.

By the time the board approved the outsourcing deal last October, only three people testified against the plan. "Since then there have been no lawsuits, no sabotage," Boardman says.

#### PROGRESS REPORT

Despite the setbacks, the pennant alliance has met some significant milestones. By July 1, 2000, more than 2,000 new state-of-the-art PCs had been rolled out, and more than 1,000 phones had been replaced in four locations. The county's Internet communication speed had been increased 140-fold. An assessment of the county's 533 applications had been completed, and data hub tools had been installed to allow Web applications to access data from core applications. A countywide information security assessment had been completed, and major security vulnerabilities had been corrected. A release strategy for the new ERP systems had been developed, and 22 different help desks had been consolidated into one.

No question, the Pennant Alliance must deliver. Now. Systems must be replaced, service levels must be met, and county employees and citizens must start seeing some of these new e-government services they've heard about for so long.

**City of Palo Alto  
City of East Palo Alto  
City of Menlo Park**

## **BEST PRACTICES – CASE #5**

### **Three Cities Approve Joint Powers Agency to Focus on Mutual Flood-Control Issues**

Palo Alto, East Palo Alto and Menlo Park signaled a new era in regional cooperation this week by approving their participation in a joint effort to take care of San Francisquito Creek.

The creek, a dividing line between the cities, is one of the last natural waterways in the region and needs constant attention to manage vegetation, erosion and debris that can lead to flooding.

The Palo Alto and East Palo Alto city councils approved their participation in the San Francisquito Creek Joint Powers Authority on Monday night, and Menlo Park followed suit Tuesday night.

The Santa Clara Valley Water District had earlier approved its participation, and the San Mateo County Board of Supervisors, sitting as the county's flood control district, is expected to do so Tuesday.

Stanford University, which has extensive land holdings along the creek, will be an associate member of the JPA. State law restricts membership of joint powers authorities to local governments.

Led by Menlo Park City Manager Jan Dolan and Palo Alto City Manager June Fleming, the drive to organize the JPA began last year after the Feb. 2-3 flooding. Long-term flood control eventually will be an interest of the JPA.

"While some of you have dreamed about regional cooperation, this is an example of what can be done," Fleming told the Palo Alto City Council Monday. "It really provides an opportunity for environmental protection of the creek," Dolan said. Greg Zlotnick of the Santa Clara Valley Water District board said there was "tremendous initiative from Jan and June" in moving the JPA forward.

"This is a much more reasonable and logical approach to (maintaining) the creek," said East Palo Alto Vice Mayor Sharifa Wilson.

Each of the five governmental entities is expected to fund the JPA, as the cities now pay individually for various creek maintenance projects.

One of the tasks of the JPA will be to determine funding sources for larger projects. Any of the potential flood control projects that could protect residents from a repeat of last year's disastrous flooding have huge price tags of about \$100 million, likely requiring significant outside funding.

The Santa Clara Valley Water District has allocated \$500,000 for a survey of the creek, which Zlotnick said he hoped to persuade fellow water board members to match in the coming fiscal year.

Randy Tally of the water district staff said the topographic studies will gather data on the conditions of the creek. That information will then be helpful in determining what kinds of projects will be needed to maintain the creek. It had been almost 30 years since such studies were done, Tally said.

The next step will be for the five JPA members to each select one member as a JPA delegate and a second as an alternate.

CITY OF MORENO VALLEY, CA  
CITY OF RIVERSIDE, CA

BEST PRACTICES – CASE #6

Best Practice Recognition  
Shared Fire Station Saves Money, Improves Service  
for Moreno Valley, Riverside Residents

The cities of Moreno Valley and Riverside in Southern California, like many other cities across the nation, are continually challenged to provide adequate fire protection for their citizens. Not long ago, both cities were planning to construct and operate separate fire stations—stations that would be located within one mile of one another. But instead of duplicating efforts, the two cities entered into an innovative partnership that would reduce costs, provide a higher level of service, and pave the way to an on-going cooperative working relationship.

Moreno Valley (population 139,000) had plans to build a fire station near the TownGate Mall on the east side of Interstate 215, which is more or less the dividing line between the cities. Riverside (population 241,000) planned to build a facility a mile away, on the west side of Interstate 215. The area along this border contains manufacturing, light industrial, commercial and residential areas. Riverside was experiencing unacceptable delays in responding to fire calls in this area; response time to its Canyon Springs Industrial Park area averaged 12 to 15 minutes. At the same time, Moreno Valley was lacking the equipment needed to provide what it considered good fire protection to its regional mall, and the response time to the mall also needed improvement.

Initially, officials in the cities considered contracting with one another for services, but that concept was shelved in favor of having crews from both jurisdictions operate from the same station. The cities agreed to locate the jointly-operated fire station at the Canyon Springs/TownGate site in Moreno Valley, a site that was contributed by the mall developer and one which would provide good access to the areas needing service in each city. Officials also agreed that each fire department would house one engine company in the station, and that they both would respond to fires in either city as well as in unincorporated county areas nearby.

There were questions concerning the feasibility of this approach. In the past, the relationship between the two cities had been more competitive than cooperative and the two fire departments were perceived as being reluctant to cooperate with each other. Different management philosophies were in place: Riverside's fire department is operated by municipal employees, while Moreno Valley's fire department is operated under a contract with the Riverside County/California Division of Forestry.

It was clear to all involved in the process that this joint project would require extraordinary cooperation and would require a level of partnership that had never before been attempted. Both fire departments asked the unions to work together in developing protocols and procedures for cooperation in fire operations and in sharing a station. When the firefighters informed their elected officials of the proposal, a joint meeting of the two cities was held to discuss the proposal publicly for the first time. Points of contention were raised and resolved and support for the joint fire station was solidified. The cities termed themselves, "Partners in Progress." It was a partnership that included the Riverside City Council, Moreno Valley City Council, California Department of Forestry and Fire Protection, Riverside County Fire Department, Riverside City Firefighters Association, California Department of Forestry Employees Association, and the City of Moreno Valley Firefighters Association.

The cities entered into a joint powers agreement for the construction, maintenance and operation of the new Canyon Springs/TownGate Fire Station. Having a 30-year term, the joint powers agreement stipulates that each city contributes 50 percent of the construction, operation and maintenance costs of the station. Both cities share equally in the ownership of the building and improvements while the land remains the property of the City of Moreno Valley.

Construction of the fire station started in November 1995—the cost of construction for the 9,490-

square-foot station was about \$1.2 million—and the station was operational in August 1996 following dedication ceremonies attended by more than 1,000 citizens, staff members and elected officials. The cities calculate that this joint station approach saved approximately \$700,000 in initial capital costs and will save \$50,000 in annual operating expenses.

An automatic aid agreement was developed to enhance the cooperative working relationship of the two fire departments and to provide a higher level of service to both communities. This automatic aid agreement ensures that the engine closest to an incident would respond to a call, regardless of jurisdiction, and ensures also that adequate back-up is immediately available should other incidents occur. The automatic aid response was implemented in June 1996, a couple of months before the fire station was occupied.

The joint fire station, which is larger and which offers more amenities than others in the area, now serves the western portion of the Moreno Valley community, the Canyon Crest and Canyon Springs communities of Riverside, and some pockets of unincorporated county areas, providing improved fire protection through the back-up and automatic response capabilities now available to deal with emergencies. Response time from Riverside to the Canyon Springs Industrial Area has decreased from the 12-to-15-minute range down to 4 to 5 minutes—a significant improvement, and response times to other areas of both cities have also improved.

In the view of Riverside Mayor Ronald Loveridge, Moreno Valley Mayor Charles White, and other officials in both cities, an important by-product of the fire station effort is that cooperation between the cities has been stimulated in other areas as well. There have been joint Council meetings and discussions of other joint projects for the future.

More information on the joint fire station is available from Mayor Loveridge's office, (909) 782-5551, and Mayor White's office, (909) 413-3008.

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## U.S. CONFERENCE OF MAYORS BEST PRACTICES DATABASE

CITY OF PORTLAND, OR

Mayor Vera Katz

### BEST PRACTICES – CASE #7

#### Best Practice Recognition The City of Portland's Mayor Vera Katz Views Transit as Their Top Issue

*"We promised we would do our part to maintain the Urban Growth Boundary by aggressively managing growth within Portland. And we are. We've rezoned land around lightrail stations. For instance, we rezoned around the new Goose Hollow light rail station to allow for the potential of at least 1,400 more housing units." Vera Katz, State of the City address, 1.17.97*

#### **Transportation is an Economic Issue:**

"Meeting transportation needs is not only important for the efficiency of the city, it also necessary to sustain our economy." Vera Katz, Newspaper Op Ed, 7.1.97

#### **Reducing the Miles Traveled is the Goal:**

"Portland has set a transportation goal to reduce the number of miles traveled by each Portlander by 10 percent, along with a 10 percent reduction in the number of parking spaces per capita. We are not close to meeting these goals. If we expect to maintain or improve our quality of life, we need to get more serious in our transportation and transit efforts." Vera Katz, Budget Message, 4.14.98

#### **Linking Transportation Systems to Land Use:**

"Through the City of Portland's Office of Transportation, Metro, and Tri-Met, we have led the nation in linking transportation to land use and livability. Light rail transit, bicycle and pedestrian ways, a new streetcar, and transit oriented development incentives have contributed to our national reputation as a leader in limiting the increase in automobile usage." Vera Katz, Newspaper Op Ed, 7.10.98

"We are extremely proud to have our efforts at encouraging alternative transportation recognized by Bicycling. In Portland, we treasure our green environment, our clean streets, clean air, and work very hard to preserve it. Small investments steps such as requiring covered parking for bicycles for new buildings, to clearly marking the streets to make them more user friendly for cyclists, ensures Portland's future as one of the most livable cities in the nation. Our work on this will continue until we are the best in North America – look out Montreal!" Vera Katz, statement on Portland's #1 ranking by Bicycling magazine, 3.5.99

"Everything we do for Portland gets stuck in a traffic jam if we don't have a transportation system that connects our communities, reduces our reliance on the automobile and increases our travel by bus, lightrail, streetcar, bicycle or foot.

#### **Q: How are we doing?**

**A: Not good enough.** For example, in the region, the number of people driving to work has increased 80 percent between 1970 and 1990 – that means 227,000 more cars on the road. We must develop the region's transportation infrastructure as an interrelated system and get people to use it. When I say system, I mean just that – not a jumble of independent parts. How kids walk to school is part of it; so is how 1,000 containers leave Portland docks. Connecting downtown to Lloyd Center is part of the same system that connects Portland to Tokyo." Vera Katz, State of the City address, 2.13.98

#### **Mayor's Transportation liaison:**

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CITY OF RIVERSIDE

BEST PRACTICES – CASE #8

Best Practice Recognition

The City of Riverside's Goal is to Compete for Technology Jobs  
by Providing Technology Tools & Training to it's Low Income Residents

"For Riverside to compete for technology jobs, we need residents that understand technology. To attract high-end retail and restaurants to Riverside, we need to increase the median income of our residents, says Steve Berry Riverside Community On-Line (RCOL) Director. "If each low income family can earn 10-15% more in wages because of the RCIP program, this can add up to over \$500,000 in the family's pockets over their wage earning lifetime. That is more money for the family and the surrounding community", says Berry.

RCOL has raised an initial \$21,000 in local sponsorship funds from area businesses including our key partners-- Riverside County's Credit Union (RCCU) and Jaguar Computers. Several grants have been written and are pending funding to continue the program.

Each computer system is subsidized \$225 to bring the cost of owning the system to a manageable amount. The program targets qualified low-income/minority families with a complete 600mhz computer system, color printer, bi-lingual tech support, operating software, and Internet access for total of \$19 per month. The system is installed, tested, and connected to the Internet in the family's home.

The credit union will finance the loans at a reduced interest rate and waive credit history qualifiers. All the family needs is a valid Social Security Number or a Green Card Number to obtain a loan over the phone. Participants will own the computer after 36 payments. A similar program using refurbished computers will offer a \$10 per month rate for 24 months.

The Riverside Eastside Cybrary Connection, Arlanza Computer Center and Center for Virtual Research are the computer centers that train Riverside residents on the computer at no charge. Once the student graduates from the basic computer course and meets the qualifications, he or she is eligible to participate in the program.

Of the 180 computers purchased by families in the Riverside Computer Investment Program since the program began September 1<sup>st</sup> 2000, 70% have been to Hispanic families, 18% to African-American families, 11% to Anglo families and less than 1% to Asian families.

Highlights of the January 2001 Phone Survey (20% of the first 100 families)

- 81% have decreased the time watching TV
- 69% have improved their grades in school
- 63% of the children have trained their parents/guardians
- 88% use the computer for research projects
- 94% are very satisfied with the computer and training experience

For the complete study, please see the detailed report.

**Q: What is the RCIP Program?**

**A:** Own a reconditioned computer system for \$10 per month  
24 monthly payments includes all taxes, fees, interest; 90 day parts/labor,  
90 day Bi-lingual phone support

**A:** Own a NEW computer system for \$19 per month

36 monthly payments includes all taxes, fees interest;, 1 year parts/labor,  
90 day Bi-lingual phone support

*Free Internet Access is included in all systems!*

Easy over the phone loan program! NO money down!

New Computer system includes:

Vista Point Mid-Tower System

Intel Celeron 600MHz CPU

64MB RAM, 1.44MB Floppy

10.2GB hard Drive – 52x CD ROM

V.90 Modem 56KB

PS/2 Mouse – Keyboard

Microsoft Windows98

Vista Point 15" .28DP SVGA Monitor

Microsoft Works, WORD

Color Jet Printer

Video and Sound Cards with speakers

**To qualify for this program, you MUST meet all of the following criteria:**

Be enrolled in a Riverside Public School

Receive or qualify for the free or reduced school lunch program

Require a passing GPA or agree to bring up your GPA

Maintain a good attendance record

Minimum 6 months residency in The City of Riverside

Have completed a basic computer course at one of the following community centers (1)

Arlanza Computer Center (2) Eastside Cybrary (3) Center for Virtual Research CDI (4) Casa

Blanca Home of Neighborly Services

For more information, please contact:

Steve Berry, Executive Director  
Riverside Community On-Line (RCOL)  
Telephone: (909) 826-5897

E-mail: [sberry@aol.com](mailto:sberry@aol.com)

The United States Conference of Mayors  
J. Thomas Cochran, Executive Director  
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CITY OF SAN DIEGO, CA

BEST PRACTICES – CASE #9

Best Practice Recognition  
Helping businesses in San Diego Grow and Flourish is a  
Major Focus of the City of San Diego

**“Business Matters”**

The City of San Diego has adopted a “Business Matters” theme, which is also the name of their new business assistance newsletters.

Defining Economic Development on a Comprehensive Basis

From Attraction and Relocation to Business Expansion and Retention, Business Finance, Permit Assistance, Small Business Assistance, Special Incentives and Benefits, and Technology and Development, San Diego is serious about getting the message out that they are a business-friendly community.

E-Commerce Provides Access and an Immediate Impression

**Attraction and Relocation**

The City of San Diego offers the relocating business helps with site selection, incentives, permit assistance, financing, and other assistance. Their site question “What Makes San Diego a Business-Friendly City” is answered “a City government that actively assists businesses, a fantastic work environment, and lots of great global trade opportunities.” The City claims the “proof” is: lower business fees, regulatory relief, special incentives, and other programs to help businesses large and small. Using the EDC as its Ambassador, the site invites the relocating business to use the services of the EDC in their relocation search, boasting such things as: progressive and responsible economic development leadership through national and international business attraction programs, local business retention and expansion efforts, and legislative advocacy. Services are free-of charge.

Business Expansion and Retention

Composed of three components, Business Expansion and Retention includes **financial incentives** to “lower operating and facility costs.” The City offers a cash rebate of \$0.25 on the dollar for total sale or purchase price and a business tax/development fee credit equal to \$0.45 on the dollar on the total sale or purchase price facility development costs. Business Development Assistance **includes permit and regulatory assistance**, problem solving, regulatory reform, and project troubleshooting for large companies (creating or retaining 200 or more jobs, or generating \$500,000 in annual revenue to the City. The City also coordinates with the **San Diego Workforce Partnership**, a nonprofit that supports regional workforce and employers. Having defined their major **industry clusters**, the City uses a **regional two-year community and economic development strategy**. More than 40 partner agencies and interested parties focus on the following key strategies: regional economic prosperity, increasing economic opportunity, implementing “smart growth,” energy independence and revenue enhancement.

Business Finance

City activities include the issuance of industrial development bonds and direct loans. The City also coordinates with private nonprofit financial intermediaries and for-profit providers to address access to capital gaps impeding economic development. The City works closely with the banking community, and encourages expanded credit and banking services access for low-income communities and small and minority-owned business.

**Industrial Development Bonds** for Manufacturers provide up to \$10 million for the acquisition of an existing building (at least 15% of proceeds directed toward remodel/rehab). The goal is at least 20 jobs per \$1 million of IDC Bonds.

**Enterprise Zone Facility Bonds** provide incentives (the interest on the City's bonds is tax-exempt, and therefore, substantially lower than conventional financing. They also have long-term (30 year) amortization periods.

**Nonprofit Bonds** are provided to 501( c ) 3 to promote job creation and the development of privately-operated, public-benefit facilities.

**Em Tek (Emerging Technologies) Loan Fund** is a public revolving loan fund that helps finance promising small businesses' efforts to raise working capital to accelerate growth. Em Tek addresses finance needs among the region's smaller growth companies that may not yet possess the transaction size or market potential necessary to attract venture capital. The Fund provides loan amounts of up to \$250,000, flexible terms up to five years, and below-market rates. This is a private-public sector partnership, with the City's Economic Development Division operating the Fund, with assistance from the Jacobs Center for Nonprofit Innovation and an advisory board comprised of private sector volunteers with broad expertise in early-stage growth company finance. Em Tek's capitalization currently stands at approximately \$2.5 million (City funding, federal EDA, County of San Diego, and a consortium of area banks).

**Other Local Financing Agencies** also participate with the City, providing six different programs: ACCION San Diego provides micro-loans (up to \$25,000) for home-based or small businesses, CDC Small Business Finance Corporation loans for small and medium-size companies; California Southern Small Business Development Corporation, City-County Reinvestment Task Force, the U.S. Small Business Administration, and SBA's September 11 Economic Injury Disaster Loan Program.

**Permit Assistance** is provided by the City, through a streamlined permit process to enhance the business climate. Two programs include the Business Expansion and Retention program, and the Small Business Troubleshooter. The **San Diego Regional Permit Assistance Center** serves as a central source of assistance for business owners seeking guidance with permit application and approval processes for projects in the San Diego region. The center is a joint operation between the City, County, and state.

**The Small Business Assistance** program is a prototype. **The City of San Diego has created the ONLY municipal Office of Small Business in California dedicated solely to helping small businesses succeed.** The City sets aside millions of dollars each year for small business programs. The support includes Direct Assistance (guidance starting a business, outreach programs, storefront improvement programs, financial support, and a technology link/central library).

**Business Incentives** include water-sewer capacity fee reductions, fee deferrals, manufacturing property tax rebate, and coordination of incentives provided by other City departments and by partnership agencies.

**Partnering with Mexico** for binational regional economic development means that the Cities of San Diego and Tijuana formed a partnership approach to developing the regional economy.

**The United States Conference of Mayors**  
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CITY OF LONG BEACH, CA  
Mayor O'Neill

BEST PRACTICES – CASE #10

Best Practice Recognition  
Doing More with Less: Reinventing Traffic Engineering  
Services in a Mature City

*"Long Beach's traffic safety initiative is reflective of our ongoing efforts to streamline internal processes, improve efficiencies and productivity and, most importantly, respond to the needs of our community."*

**- Mayor O'Neill**

Long Beach is a major Southern California city with a population of about 440,000. Its infrastructure is largely built-out, and during the early '90s the city experienced significant economic downturns including naval base and aerospace industry closures.

Historically, the city has had a traditional traffic engineering division, whose activities included enforcing engineering standards, warrants, codes, and regulations. A by-the-book approach had become the norm for responding to resident complaints, largely attributable to the more than 1,000 traffic safety and operational complaints the agency received each year. These complaints were in turn handled by a staff which was roughly 30 to 50 percent smaller than comparable agencies, and shrinking.

To respond to the growing constituent calls for action, the City Council in 1993 determined that to address these concerns quickly, and in light of limited staff resources, an aggressive short-term program of consultant assistance would develop traffic management programs for 23 of the most severely impacted neighborhoods. Contracts were issued, and work began with more than 65,000 questionnaires being sent to area residents. Roughly a year later, plans for each neighborhood, developed through resident steering committees, were adopted by the City Council.

Problems with the Action Plan

Then it got difficult. While the consultant studies had identified numerous physical improvements that could in concept address residents' concerns, numerous implementation issues remained unresolved. These included consultation with other residents, who had not been involved with the steering committees and were opposed to the travel inconveniences associated with "traffic calming" measures; the maintainability of some proposed improvements; the aesthetic impacts of other projects; and requests from other neighborhoods to address traffic safety concerns. Due to the open-ended nature of these concerns, addressing them fell upon city engineering staff, who were unaccustomed to dealing with such non-quantifiable issues.

Reconsidering Traffic Engineering Programs and Priorities

The need to deal with this unfamiliar task required us to step back and reconsider overall traffic engineering programs and priorities. This effort consisted of six basic elements:

1. Streamline Regulatory Requirements a significant step in responding to traffic safety concerns is the processing and approval of city ordinances. Recognizing this, the City Council reviewed and authorized staff-level processing of two key on-street parking issues: school-area passenger loading zones and disabled-accessible (blue) spaces. By authorizing staff to administratively handle requests related to these areas, the timeliness of responses was significantly improved.
2. Refocus Staff Resources In 1995, transportation planning staff were combined with traffic engineering. In light of its largely development-related work program during a period of little development activity, transportation planning staff could be more effectively assigned to duties such as improving constituent communications. This included an active program of notification and consultation with interested parties and establishing a call-in comment hotline, as well as development of information materials which could be more widely distributed. Short course and group discussions on constituent communication have also been an important means of improving overall staff skills.
3. Institutionalize Safety as the Agency's Top Priority Traffic engineers are sometimes accused of being concerned only with "moving traffic" while being oblivious to its possible negative effects on the community. To break from this stereotype, public and internal communications were revised to recognize safety as a primary objective. This objective was also institutionalized through establishing accident reduction as an annual performance target.
4. Recast Work Activities around Agency Goals Refocusing work efforts can easily be lost at the staff

level, particularly when staff have been doing the same function for years and do not recognize a need to change. To provide a bridge between longstanding functions (a majority of which remained unchanged) and new initiatives, each function was categorized into its basic objectives: improving community safety through responses to constituent requests; protecting neighborhoods and business access through street designs; providing capacity for city growth through capital improvements; increasing the city's leadership role among cities in the region; and supporting staff productivity and development. Showing staff the relationship between their individual efforts and the agency's overall objectives increased comfort and improved morale in uncertain times.

5. Leverage the Participation of Others By working with other city departments, traffic engineering staff has drawn on additional resources to communicate issues and options to residents. This includes police officers who report on issues observed on the street; neighborhood services and business outreach staff working with constituent groups; and community associations and neighborhood watch groups.
6. Support Staff Initiative Individual staff interest provided excellent opportunities for taking advantage of technology to improve services. For example, staff interest in the Internet provided a volunteer to develop division information and constituent request forms, which could be posted on the city's Web site, as well as justification for an additional computer. The same applied to software and traffic surveying equipment.

#### Results

The results of this effort are difficult to quantify, but have been encouraging with citywide accident rates down slightly. While the volume of constituent requests remains high, staff responses have also improved as staff employ other resources available through the agency, such as police officers and neighborhood watch groups. These avenues provide opportunities for increasing community awareness of traffic issues, facts, and options.

Numerous physical changes have also resulted from this program, virtually all at very limited cost through a few relatively simple process changes. For example, proposed traffic modifications were integrated into ongoing street resurfacing projects wherever possible. Second, low-cost materials (such as paint and plastic posts rather than concrete) were used in light of the potential for subsequent changes.

It has been said that the fundamental characteristic of traffic is that it should always be moving. To the extent that this also applies to traffic engineering services, the City of Long Beach is well on its way to providing new and better ways of meeting constituent needs.

Contact: Edward Shikada, City Traffic Engineer, Long Beach, 562/570-6331.

The United States Conference of Mayors

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## U.S. CONFERENCE OF MAYORS BEST PRACTICES DATABASE

CITY OF TOLEDO

Mayor Carleton S. Finkbeiner

### BEST PRACTICES – CASE #11

#### Best Practice Recognition Municipal Energy Management

The City of Toledo's Municipal Energy Management Program began in 1985 for the purpose of reduction or containment of energy consumption and cost, and to insure occupant comfort and safety in city facilities. The main goal of this program is to achieve a positive and progressive impact on the economic vitality and environmental quality wherever energy is used. On May 16, 1995, the Facility Operation Division, City of Toledo, received an award from Public Technology, Inc. (PTI). Over 250 entries were submitted to PTI and Toledo received the highest score for Technology Achievement for energy conservation.

Phase I involved \$930,000 which was used for energy efficient lighting system retrofit of seven city facilities, financed through the city's Capital Improvement Program and bonds with a guaranteed energy savings for five and one-half years. Phase I surpassed its projected \$169,091 per-year savings.

Phase II focused on lighting, weatherization, and HVAC retrofit, involving 30 city facilities. It was privately financed and guaranteed by a \$3,539,731 lease of equipment and services, with a projected energy savings of \$488,076 for seven years.

Toledo's Energy Program is currently entering Phase III, involving approximately 30 facilities, and will entail \$3.144 million with no initial out-of-pocket cost to the city. Facilities in the program include fire, safety, health, services division, senior centers, community organizations, ball diamonds, parks and public schools.

The Energy Program assisted the city of move toward a preventive maintenance mode of operating facilities rather than the crisis management experienced previously. Energy usage and cost and air quality have been dramatically affected with savings or cost avoidance estimated at over \$19 million since 1985.

Contact: Office of the Mayor, (419) 245-1001.

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CITY OF FRESNO  
Mayor Alan Autry

## *BEST PRACTICES – CASE #12*

### **City of Fresno Fleet Management's Philosophy: "Run It Like You Own It" Results In Competitive Pricing and National Recognition**

*Fresno's Fleet Management is a Division of the City's General Services Department. The Division operates as an internal service fund and is funded by billing clients for services rendered. Fleet Management procures, maintains, and repairs all City vehicles and equipment other than fire pumper trucks and FAX buses. Maintenance is performed on a diverse 1,752 unit fleet ranging from patrol cars, to refuse trucks, to sweepers, to construction vehicles. In a ten year period, Fleet Management added 470 pieces of equipment, but only 1 mechanic. This was made possible through their initiatives to seek continual efficiency improvements.*

*Fleet Management is also responsible for other key city services often not associated with their operation. These services include emergency generators' maintenance, construction equipment rentals and the disposal of vehicles at the end of their economic life cycles. In addition, the Division provides assorted shop services to city customers which include welding, machining, project design, and metal fabrication. Equipment fueling service is provided through a state-of-the-art fully automated system. The Division provides its customers with monthly billings generated by a three-tier client computer system called FleetAnywhere. Fleet Management uses key industry benchmarks to track performance and is sensitive to customer feedback. The Division ensures customer communication occurs through daily conversation, bi-annual liaison meetings, operator questionnaires, and an annual customer service evaluation survey. The most recent survey resulted in a 95% customer service rating of Excellent. Fleet Management also administers the Fleet Replacement Program with the mission to replace city vehicles before their maintenance costs enter the penalty phase of the vehicles' economic life cycle. The penalty phase begins when the total operating costs, including ownership and maintenance, escalate upward such that the old vehicle costs exceed the purchase and operating costs for a new vehicle.*

*The staff who keep the City of Fresno's vehicle fleet in top working order have a unique philosophy—"Run It Like You Own It!". To them this means run the operation as a competitive business model, complete with a Business Plan, Annual Report, Customer Satisfaction Surveys, and a Customer Service Brochure.*

*Using direct surveys of their local competitors, Fleet benchmarks their costs of doing business with the private sector, and they beat them with fully-burdened labor rates and the "preferential pricing" they ask for as a City when they do the survey. The FY 2003 fully-burdened labor rate of \$60.65 per hour is 16% below the Fresno market rate of \$72.00 per hour. To ensure customers are not charged more hours than necessary for a repair, actual technician repair time is compared to industry time standards. This Fleet best practice helps to ensure the lowest possible labor cost is billed to customers.*

*To maintain the lowest possible parts costs, Fleet entered into a cooperative parts bid that includes a local school district, the County of Fresno and the nearby City of Clovis. The quantities of parts are large enough that the agencies realize considerable savings – typically the average cost is 34% less than the Fresno retail market. Another advantage is that the vendor replenishes stock on a weekly basis, saving staff time and increasing efficiency.*

*The City of Fresno purchases over 2 million gallons of fuel per year. To ensure the lowest possible cost, fuel is bid twice a week. This process provides for fuel to be billed to fleet customers at approximately 25% below Fresno retail market pricing.*

*Another avenue Fleet Management uses to minimize costs is to spend approximately \$2 million per year on outsourced repairs and services where peak demands or specialization make it more cost-*

effective. Outsourced repairs include auto body work, transmissions, radiators, OEM dealer service, truck body repairs, towing, heavy equipment washing, vehicle glass work, exhaust systems, upholstery, drive-line repairs, speedometer repairs, and fiberglass components.

Fresno's Fleet Management Division was recently recognized by a national automotive service organization for their automotive repair accomplishments. They were awarded the Blue Seal of Excellence from the National Institute for Automotive Service Excellence (ASE), a non-profit organization dedicated to improving the quality of vehicle repair and service. The City of Fresno is one of only three U.S. cities over 350,000 population to receive the Blue Seal of Excellence award.

To be eligible for this recognition, an organization must have 75% of its automotive professionals ASE certified, which requires specialized training and testing. In addition, there must be a certified technician in each area of service offered. Of the thirty automotive technicians employed with the City's Fleet Management Division, 77% are ASE certified, which exceeds the Blue Seal award benchmark. More noteworthy is the fact that the Division's mechanical staff includes twenty-two Master Technicians representing the highest level of individual ASE recognition possible. ASE President Ronald Weiner commented "organizations that have earned the ASE Blue Seal of Excellence Recognition have gone the extra mile in support of their customers."

Most consumers look for the ASE seal when selecting an auto repair shop for their personal vehicle because they know they'll get the best quality service. This recognition means that the City's vehicles are being maintained by some of the most qualified technicians in the industry.

Contact: John Hunt, Fleet Manager (559) 621-1101. Ken Nerland, Director, General Services Department (559) 621-1001 is implementing the same competitive concepts in the other Divisions in his Department.

**CITY OF HAWAII**

*Mayor Stephan K. Yamashiro*

*BEST PRACTICES – CASE #13*

*Best Practice Recognition  
Volunteer Fire Division*

*The County of Hawaii sees a dire need to restructure the organization within the Hawaii County Fire Department in order to implement changes of the innovative and unique Volunteer Fire Division.*

*The island of Hawaii has a population of 134,000 spread over 4,100 square miles of land with communities spread far apart. The Hawaii County Fire Department currently has 17 career stations and 286 firefighters. This provides minimal fire protection with vast areas having no fire protection at all.*

*As of December 9, 1992, under then-appointed Fire Chief Nelson Tsuji, a personal commitment was made on behalf of himself and newly-elected Mayor Stephan Yamashiro to expand the present volunteer program. Inherited budget deficit problems, compounded by the closing of three major sugar cane companies, forced the Mayor and Fire Chief to actively seek inexpensive avenues for fire protection.*

*Expansion of the volunteer firefighter's program was the logical solution. Here was a program that was a branch of the Training Division and the same size. Expansion would not come without problems: Funds would have to be secured for the purchasing of equipment, protective gear, physical examinations, and commercial drivers licenses. The supply of fire trucks, equipment, and protective gear originally passed on to the volunteer division through attrition from the career companies was depleted.*

*The expansion of the program has produced positive results:*

*The volunteer fire division is now a formal and separate division in the table of organization.*

*Hawaii State Legislature passed Bill #191 which places volunteer fire stations on equal status with career fire stations for securing fire insurance coverage.*

*The number of volunteers stations increased from 10 to 16.*

*Each company has had a resurgence of volunteers.*

*The number of personnel has increased from 120 to 248.*

*A waiting list of 10 communities wanting to form volunteer companies exists.*

*The County Council approved a separate budget for the volunteer division for the purchasing of equipment, safety gear, physical examinations, and commercial drivers licenses for 150 personnel.*

*Chief Tsuji applied for Federal Rural Community Fire Protection Grants and successfully secured funds for the purchase of three new fire trucks. All other fire trucks are 1974 models and older with numerous mechanical problems.*

*Volunteer personnel have repaired four fire vehicles that were stamped for disposal.*

*Two companies were certified for the first time as Volunteer First Responder Medical Teams.*

*The Fire Department's Wildland Fire Committee, composed of career and volunteer personnel in a joint effort, has been formed.*

*The Volunteer Fire Chief's Association has been formed.*

*The first two volunteer personnel from the State of Hawaii have attended the National Fire Academy in Maryland's Volunteer Incentive Program.*

*Chief Tsuji received assistance from the State Forestry Service and accepted two surplus fire trucks.*

*The expansion of the Volunteer Fire Program will benefit all residents of Hawaii County, especially in the unserved rural communities. The increase of stations, apparatus and personnel has provided these areas with increased fire and medical coverage. Career and volunteer stations are strategically located throughout the island.*

*The expansion of the program was met with mixed reactions. The County Council unanimously approved the volunteer budget and the newly formed companies were welcomed with open arms in the rural communities where fire protection was previously nonexistent. The insurance industry suffered anxiety attacks because of Bill #191. Under this bill, insurance agencies would have to provide coverage in the rural communities where water supply for fire protection is provided by home catchment systems. The Career Firefighter's Union has been less than supportive of the idea for fear of job losses in the troubled economic period.*

*Our program is unique to the State of Hawaii. The County of Hawaii is the only county (island) that has volunteer firefighters. It has a land area larger than the other six islands of the Hawaiian chain put together, and a limited tax base.*

*Contact: R. B. Legaspi, (808) 961-8211*

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CITY OF FRESNO

Mayor Alan Autry

**BEST PRACTICES – CASE #14**

**City of Fresno Parks & Recreation Department Uses Volunteers and Creativity to Maintain Service Levels, Saving More than \$1.8 million in Labor Costs.**

*In an era of shrinking General Fund Revenues, the City of Fresno turned to volunteerism to maintain service levels. The Parks Division has utilized both inmate laborers and adult offenders as an enhancement to the City workforce. The utilization of the programs has been a success from inception.*

*Inmate Labor*

*Inmate Labor was first utilized in FY 2000, with a crew of nine inmates and a Parks Maintenance Leadworker to maintain median islands. By providing training to a City leadworker, and subsequently providing tools, a van, and a porta-potty, the leadworker was able to supervise the landscape maintenance work performed by the inmate crew. The purchase of a van in the next year added nine additional inmates, providing over 37,000 hours of labor. Parks was able to increase service levels, providing labor hours for new medians, as well as existing medians.*

*In FY 2002, a van was approved for the landscape of Assessment Districts. This provided nine more inmate laborers. In FY 2003, Parks utilized an existing van to add a fourth crew. This has enabled Parks to increase service levels within the Assessment Districts while also providing staff resources for plant replacement and the rehabilitation of some of its irrigation systems.*

*Adult offenders who have been assigned to community service also provide trash pick-up, restroom cleaning, lawn edging, and other landscape related work for the Regional Parks and Median Island clean up.*

*To date, inmate labor crews and adult offenders have provided over 60,000 hours of Parks maintenance work for the City. The value of those labor savings exceeds \$1,009,000. Equipping the 28 employees required to fill this void with vehicles and tools would have cost the City over \$750,000 (compared to the \$90,000 spent on vans, portapotties, and tools.*

**Playground Safety Replacement Program Savings Another \$800,000**

*New Playground Regulations adopted by the State of California January 1, 2000, resulted in a requirement for all public playgrounds to be inspected by a certified playground safety inspector by October 1, 2000.*

*AB 1055 required that any changes in design, installation, inspection, maintenance and supervision of playgrounds that were identified by the inspection process had to be addressed. Following the initial inspection, City maintenance crews were trained in the processes of installation, inspection, and maintenance.*

*The inspection identified 23 different sites where the Playground equipment had to be replaced. To reduce the purchase price, the City worked with local vendors and the Purchasing Department to identify another public agency making a similar purchase. This enabled the City to “piggyback” their bid with another order.*

*Working with the Local Conservation Corp, the City and EOC identified sites that would qualify for a playground grant that EOC had received. EOC purchased the equipment, installed the equipment, and demolished the existing structures.*

*The result of this partnering is that Parks was able to install playgrounds at an average cost of \$35,000 as compared to an estimated \$70,000 per playground. This equates to an overall savings of over \$800,000 for the entire replacement project.*

*Fifteen sites have been completed; the remaining sites will be completed by October, 2003.*

*In summary, Parks & Recreation took a State mandate, and converted it into an opportunity for cooperation and efficiency. Parks worked with local suppliers, Purchasing, Streets Division, Recreation Division, and the Fresno County EOC Local Conservation Corp to complete its mission of supplying safe and challenging playground for the City's children.*

*Contact: Michael McHatten, City of Fresno, Parks Manager (559) 621-2913. Ron Primavera, City of Fresno, Parks and Recreation Department Director (559) 621-2909.*

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# Appendix D

## Maximus User

### Fee Study



## REPORT TO THE CITY COUNCIL

AGENDA ITEM NO.

COUNCIL MEETING 12/3/02

APPROVED BY

DEPARTMENT DIRECTOR

CITY MANAGER

December 3, 2002

FROM: RUTH F. QUINTO, Finance Director/City Controller  
Finance Department

BY: BOB KOURY, Principal Internal Auditor  
Budget and Management Studies Division

SUBJECT: PRESENTATION OF MAXIMUS COST RECOVERY AND SUBSIDY REDUCTION STUDY FOR PUBLIC SAFETY SERVICES; ADOPTION OF 401<sup>st</sup> AMENDMENT TO THE MASTER FEE SCHEDULE AMENDING VARIOUS CURRENT POLICE AND FIRE FEES FOR SERVICE; AND DISCUSSION REGARDING PROPOSED NEW POLICE AND FIRE FEES

**EXECUTIVE SUMMARY**

The attached "Cost Recovery Study Findings" (Attachment 4) is the preliminary report prepared by Maximus, Inc., pursuant to a request by the City Council to conduct a review of current City fees for services and make recommendations for adjustments in an effort to recover costs, as defined by state law, that the City is not now recovering. The complete Maximus fee review for the City of Fresno is still underway, but the Public Safety portion has been completed and those findings are described in the attachment. To meet the commitments in the adopted budget and to better position the General Fund to meet future obligations, it is recommended that the estimated \$1,900,000 in annual Public Safety current fees recommended below be adopted by the City Council.

**BACKGROUND**

On September 25, 2001, Council member Boyajian requested the City Manager to look into the possibility of increasing user fees due to the lack of revenue in the General Fund. It was determined that Fresno has not had updates to its user fee structure since 1988 when the last user fee study was conducted. In a report to Council on January 29, 2002, a proposal was made and adopted by the Council to hire Maximus, Inc., to conduct a Citywide User Fee Study to identify areas that are potential targets for possible service-fee/user fee increases to recover current General Fund subsidies, as defined by state law. The lack of user fee updates was also addressed in both the Macias Studies completed in March and September of 2001, which further supports the justification of these updates.

The contract was limited in scope to the following funds and departments (excluding Golf, Parking and UGM Fees): **General Fund-** Police, Fire, Public Works, Parks, Recreation and Zoo Development **Services Fund-** Planning and Development. This contract was approved unanimously by the Council.

The report which is attached provides most of the material which was requested, **but it is not yet complete except for public safety fees.** These fees have already been discussed and are strongly supported by the Police and Fire Departments. Furthermore, since the adopted budget assumes that the City's General Fund will recover at least \$876,000 in new fees revenue in FY 2003, it is important



the City's General Fund will recover at least \$876,000 in new fees revenue in FY 2003, it is important to move the current fee adjustments forward in order to receive the revenue projected in the adopted budget.

Maximus was engaged to conduct a detailed user fee cost recovery study to determine the actual costs of various fee-related services, what the current cost recovery levels are, what fee changes would be required to achieve proper cost recovery levels, what additional revenue would be generated, and whether the proposed fee levels are comparable to those charged by other jurisdictions. The result of this study also minimizes potential tax increases.

Overall, it was found that the cost of providing user fee services is approximately \$28,600,000 annually, and the City's recovery through fees was approximately \$14,500,000, for a cost recovery rate of 51%. This means that the City is subsidizing fee supported services by approximately \$14,100,000 annually.

In the Public Safety category (Police and Fire) we currently collect \$3,456,000 annually out of a total universe of \$11,840,000 which we could be charging and collecting, assuming a policy of 100% cost recovery for police and fire fee eligible services. (Note - these two departments cost roughly \$130,000,000 annually, and full cost recovery of fees would provide about 9% of the budget.)

Even assuming full cost recovery is the policy, full cost recovery does have practical and certain legal limitations. Certain criminal acts, for example, may result in fees being charged. However, these fees often result in delayed, reduced or no payment, which is an ever increasing drain on City resources. And one large Fire Department expense, the "medical aid response," costs roughly \$1,800,000 annually, but the American Ambulance agreement with the County restricts the City's ability to charge and collect these fees. At City Council's direction, the Fire Department could meet with American Ambulance and Fresno County to address the contractual provisions and improving the payment terms.

The actual additional amount the City can reasonably expect to collect in current fees from Police and Fire activities is approximately \$1,900,000 annually. Included within this amount are two fees currently under review by the City Attorney's Office as to their legality: a) Arrested Offender Vehicle Release and b) 1<sup>st</sup> Offender Prostitution Program Class.

The areas where new or adjusted fees generate the largest revenue are:

### **Police Department**

#### **Current Fees - Adjusted and More Fully Enforced**

Chronic Offender Vehicle Release	\$1,866,000
False Alarm Response	\$ 302,000
Miscellaneous Permits	\$ 273,000
Other Miscellaneous Permits-Detective Review	\$ 218,000
Arrested Offender Vehicle Release	\$ 546,000
DUI: Traffic Stop	\$ 608,000

#### **New Fees - Not Currently Charged**

Loud Disturbance Response	\$ 658,000
Pawn Shop Transactions	\$ 109,000

## **Fire Department**

### **Current Fees - Adjusted and More Fully Enforced**

Fire Sprinkler Systems	\$ 133,000
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### **New Fees - Not Currently Charged**

Annual Fire Inspection: Non-Residential	\$1,300,000
Annual Fire Inspection: Apartments	\$ 165,000

A summary page of the Public Safety fees is included in this packet (Attachment 1) just before the Maximus "Cost Recovery Study Findings" report (Attachment 4). Also attached is a comparison of the revenue the City of Fresno receives as a percent of its General Fund from fees and related charges before the adoption of the public safety fee adjustments recommended (Attachment 2) and after the inclusion of an approximate \$4,000,000 annual increase (Attachment 3). It can be seen that Fresno currently has the lowest percent of its General Fund coming from fee revenues of our peer cities, and even with a \$4,000,000 annual increase we will still be lower than all but one of our peer cities, where our percentage would rise to the same level as the next lowest City in overall revenue from this source.

The appropriate Master Fee Schedule Resolution and Amendment is also attached to this packet (Attachment 5).

## **CONCLUSIONS AND RECOMMENDATIONS**

It is recommended that the City Council adopt the attached Master Fee Schedule revisions and Amendment No. 401 (Attachment 5) related to current existing fees for services for Police and Fire, contingent upon the review and approval of the City Attorney's Office, to take effect no later than January 1, 2003. It is also recommended that City Council direct staff related to new proposed fees for services for Police and Fire, in conjunction with the review and approval of the City Attorney's Office.

## **FISCAL IMPACT**

If the Council does not adopt the Amendment to the Master Fee Schedule in the amount of at least \$876,000, the General Fund will be out of balance by that amount due to the FY03 Adopted Budget's inclusion of this revenue. In addition, the September Finance Department report estimated an additional \$3,000,000 annually could be obtained from amendments to the Master Fee Schedule for public safety fee adjustments assuming both current and new proposed fees were adopted.

### **Attachments:**

- 1 - City of Fresno Public Safety Recommended Fee Revisions Schedule
- 2 - City Comparison Chart of General Fund Fees & Charges Revenues
- 3 - City Comparison Chart of General Fund Fees & Charges Revenues Plus \$4 million to Fresno
- 4 - Maximus, Inc., Cost Recovery Study Findings for City of Fresno
- 5 - Master Fee Schedule Amendment No. 401

# City of Fresno Public Safety Recommended Fee Revisions

## POLICE DEPARTMENT

	Current Fee	Current Cost	Current Annual Revenue	Reported Potential Recovery	Current Annual Subsidy	Annual Subsidy Reduction	Years Since Fee Last Updated
<b>Current User Fee Services</b>							
Chronic Offender Vehicle Release	\$125	\$294	\$793,250	\$1,865,724	\$1,072,220	\$1,072,474	6
Misc. Permit Application Review (A)	\$43	\$328	\$35,819	\$273,224	\$237,730	\$237,405	5
Response to False Alarm-2 or more responses each fiscal year	\$63	\$155	\$121,750	\$301,940	\$179,255	\$180,190	12
Other Misc. Permit Application- Detective Review (A)	\$43	\$204	\$45,967	\$218,076	\$171,585	\$172,109	5
Arrested Offender Vehicle Release	\$213	\$248	\$468,600	\$545,600	\$77,946	\$77,000	6
DUI: Traffic Stop	\$286	\$325	\$534,820	\$607,750	\$73,566	\$72,930	1
Impounded Vehicle Release	\$125	\$184	\$53,625	\$78,936	\$25,487	\$25,311	3
DUI: Non-Injury Accident	\$335	\$435	\$68,340	\$88,740	\$20,431	\$20,400	1
Miscellaneous Fees with net increases <\$10,000	\$3-841	\$3-1161	\$42,290	\$59,616	\$17,479	\$17,326	1-12
Miscellaneous Fees with net decreases	\$7-27	\$4-16	\$323	\$255	\$148	\$68	1-12
<b>TOTALS</b>			<b>\$2,164,784</b>	<b>\$4,039,861</b>	<b>\$1,875,551</b>	<b>\$1,875,077</b>	
<b>Proposed User Fee Services</b>							
Loud Disturbance Response	\$0	\$50	\$0	\$657,950	\$656,766	\$657,950	(B)
9-1-1 Hang-Ups (C)	\$0	\$66	\$0	\$580,536	\$581,152	\$0	(B)
Pawn Shop Transactions	\$0	\$1	\$0	\$109,200	\$111,384	\$109,200	(B)
EIR/Site Plan Review	\$0	\$210	\$0	\$31,500	\$31,451	\$31,500	(B)
Miscellaneous Fees with net increases >\$10,000	\$0	\$75-\$124	\$0	\$7,748	\$7,738	\$7,748	(B)
<b>TOTALS</b>			<b>\$0</b>	<b>\$1,386,934</b>	<b>\$1,388,491</b>	<b>\$806,398</b>	<b>(B)</b>
<b>POLICE DEPARTMENT TOTAL</b>			<b>\$2,164,784</b>	<b>\$5,426,795</b>	<b>\$3,264,042</b>	<b>\$2,681,475</b>	

## FIRE DEPARTMENT

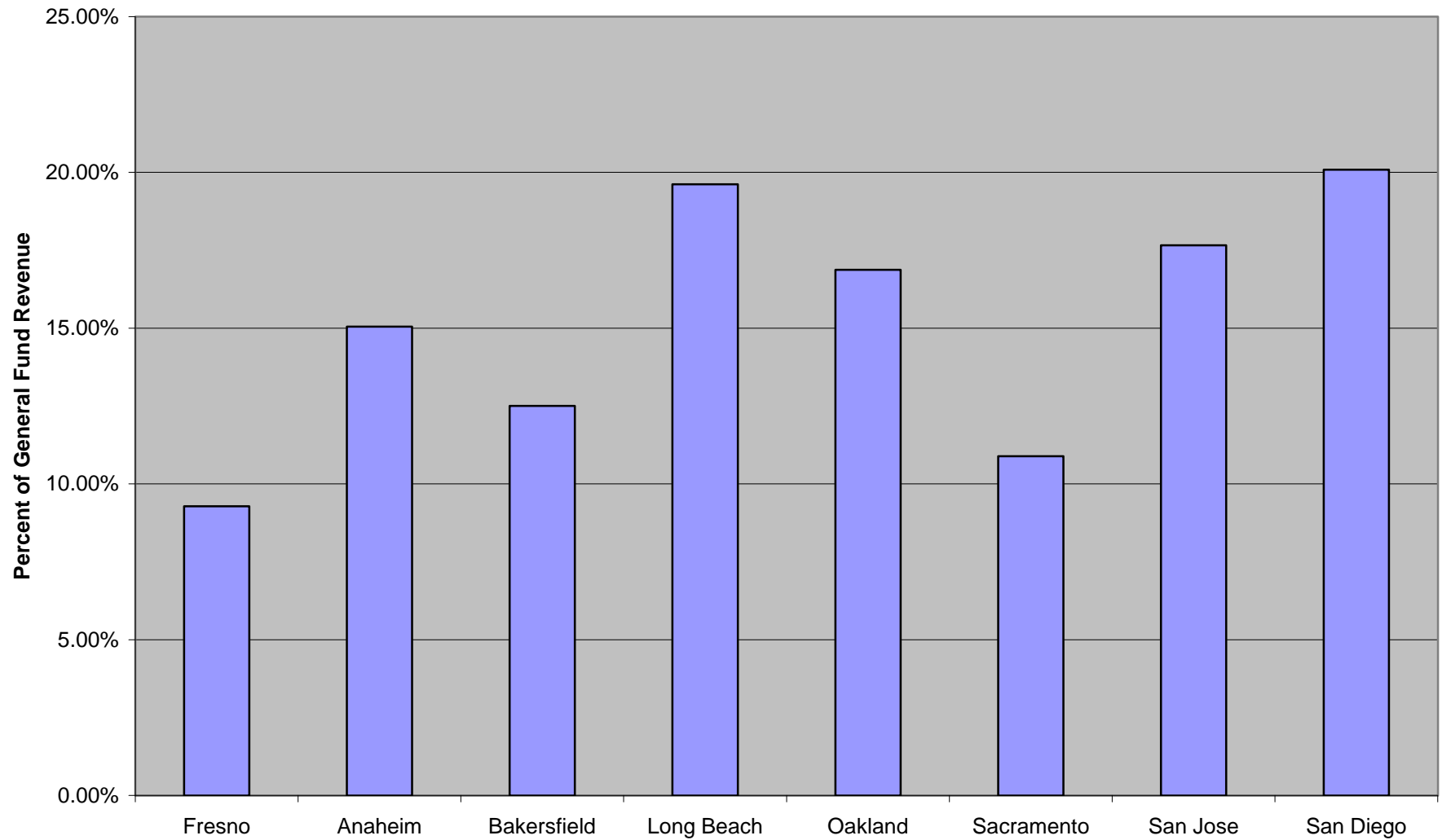
<b>Current User Fee Services</b>							
Response to False Alarm-2 or more each fiscal year	\$65	\$125	\$32,500	\$62,500	\$30,170	\$30,000	12
Fire Sprinkler Systems	\$215	\$268	\$107,500	\$132,500	\$26,465	\$25,000	7
Development/Public Works Entitlement Fees	\$38	\$75	\$22,688	\$45,375	\$22,452	\$22,687	7
Plan Check	\$43	\$105	\$15,480	\$37,800	\$22,432	\$22,320	7
Flammable/Combustible Liquid-All Other Per Annum	\$44	\$64	\$22,000	\$32,000	\$9,785	\$10,000	10
Miscellaneous Fees with net increases <\$10,000	\$1-300	\$3-786	\$65,094	\$86,508	\$49,060	\$21,414	1-12
Miscellaneous Fees with net decreases	\$16-266	\$11-256	\$269,689	\$163,962	\$105,205	\$105,727	1-10
<b>TOTALS</b>			<b>\$534,951</b>	<b>\$560,645</b>	<b>\$55,159</b>	<b>\$25,694</b>	
<b>Proposed User Fee Services</b>							
Annual Fire Inspection: Non-Residential	\$0	\$155	\$0	\$1,300,000	\$2,011,100	\$1,300,000	(B)
Annual Fire Inspection: Apartments	\$0	\$54	\$0	\$165,000	\$177,474	\$165,000	(B)
Private Hydrant Maintenance	\$0	\$46	\$0	\$82,800	\$82,476	\$82,800	(B)
Fire Inspection: 1st Re-Inspection	\$0	\$53	\$0	\$80,000	\$85,488	\$80,000	(B)
Hazardous Materials Incident	\$0	\$1,466	\$0	\$76,232	\$76,216	\$76,232	(B)
Arson Investigation	\$0	\$256	\$0	\$69,000	\$70,777	\$69,000	(B)
Vehicle Fire	\$0	\$90	\$0	\$4,500	\$4,501	\$4,500	(B)
<b>TOTALS</b>			<b>\$0</b>	<b>\$1,777,532</b>	<b>\$2,508,032</b>	<b>\$1,777,532</b>	
<b>FIRE DEPARTMENT TOTAL</b>			<b>\$534,951</b>	<b>\$2,338,177</b>	<b>\$2,563,191</b>	<b>\$1,803,226</b>	
<b>PUBLIC SAFETY TOTAL</b>			<b>\$2,699,735</b>	<b>\$7,764,972</b>	<b>\$5,827,233</b>	<b>\$4,484,701</b>	

(A) Includes, but is not limited to: Amusement devices, dance permits, hotel/rooming house permits, billard parlor permits, special event permits, bingo permits, etc.

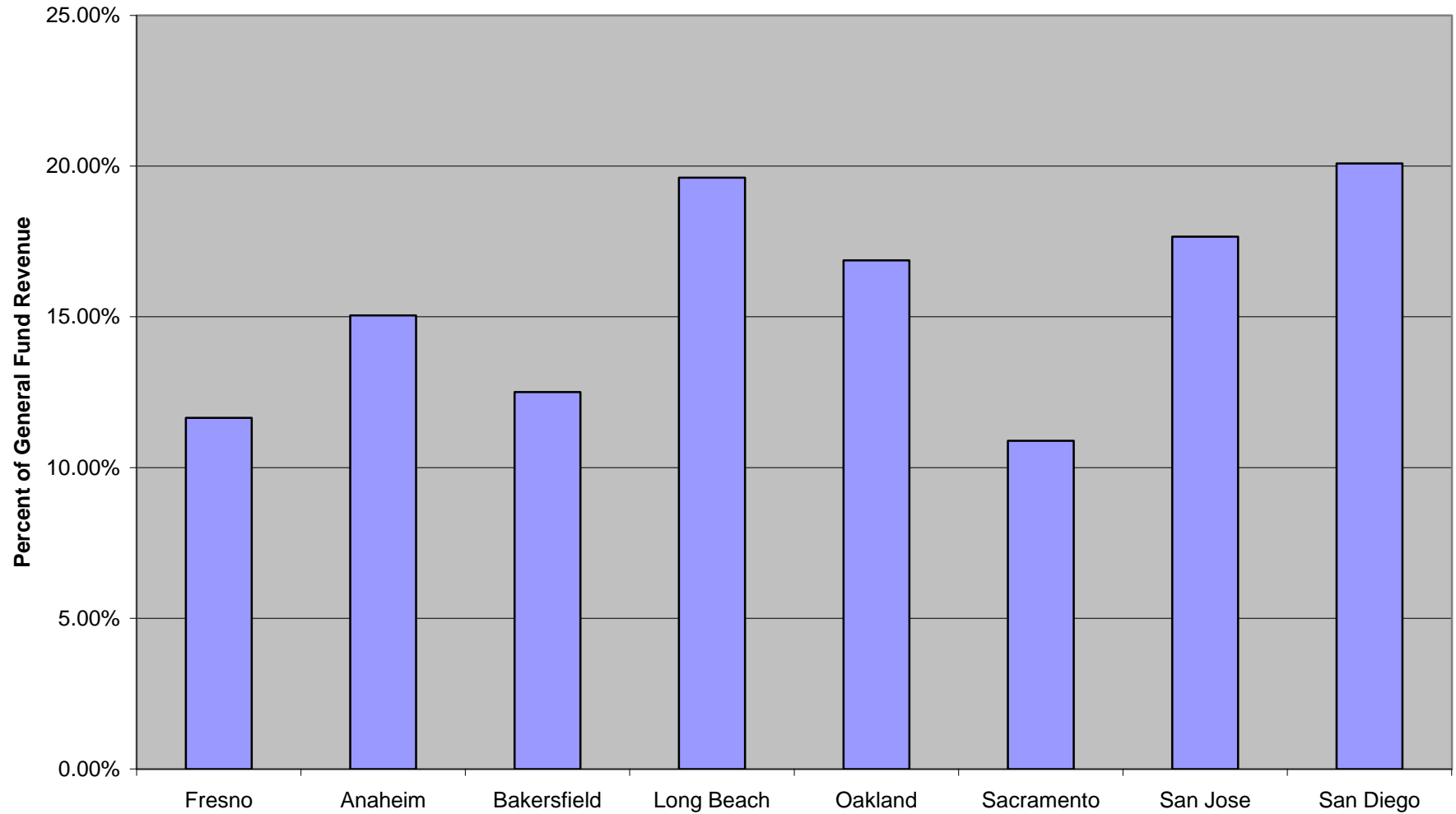
(B) Previously 100% subsidized, no previous fee or analysis

(C) Mayor supports a \$0 fee for 911 Hang-Ups to promote citizen use of 911.

**City of Fresno**  
**Analysis of Fees, Fines, Forfeitures, Licenses and Permits Revenue**



**City of Fresno**  
**Analysis of Fees, Fines, Forfeitures, Licenses and Permits Revenue**  
**Enhanced Revenue Scenario (\$4 Million)**



COST RECOVERY STUDY FINDINGS

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CITY OF FRESNO, CALIFORNIA

NOVEMBER, 2002

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## SECTION I

### EXECUTIVE SUMMARY



*MAXIMUS, Inc. is a nationwide consulting firm offering a wide array of services for state and local government. A sample of the services offered includes cost analysis, revenue enhancement studies, internal service fund analysis, performance measurement and management studies.*

## PROJECT SCOPE AND OBJECTIVES

MAXIMUS was engaged by the City of Fresno to conduct a detailed user fee cost recovery study. The scope of the project is defined by the following questions:

- What does it cost the city to provide various fee-related services?
- What are current cost recovery levels?
- What fee changes are necessary to achieve recommended cost recovery levels?
- What changes to current revenues can the city expect if recommended fees are implemented?
- What are other jurisdictions charging for similar services?

MAXIMUS, with direction and coordination from the Finance Department, performed the following tasks in order to address these issues:

- Interview departments that currently provide or could potentially provide user fee activities.
- Assess service costs with revenues currently received for these activities, and identify any subsidies.
- Identify service areas where the city might increase existing fees or implement new fees based on the full cost of services and other economic or policy considerations.
- Present selected comparisons showing what other cities and counties are charging for similar services.

The study provides the City of Fresno with cost-of-service information that it can consider, together with existing city policy for fee-setting purposes. The results will show both an increase in user fee revenues and a corresponding decrease in the general fund (or development services fund) subsidization of these services. However, some fees may be decreased, thus reducing the user fee revenues.

## SUMMARY OF FINDINGS

This report summarizes our findings on cost recovery and other considerations for the city's user fee services. Discussions cover the following funds and departments:

- General Fund
  - Police
  - Fire
  - Parks, Recreation and Community Services
  - Public Works
- Development Services Fund
  - Planning and Development

**Exhibit I.** The first task in this study was to separate fee-for-service activities from non-fee activities within the departments surveyed. Not all activities are recoverable from user fees: fire suppression or police patrol services, for example. These activities and their corresponding costs are identified and excluded. Further, this report does not address other revenue sources such as urban growth management (UGM) fees (as defined under AB 1600), franchise fees, fines, or taxes (such as transient occupancy or business license taxes). The distribution of total departmental costs is displayed in Exhibit I (page 3). The focus of this analysis is on the information under the column heading, "Costs, User Fee Services."

**Exhibit II.** In cooperation with city staff, MAXIMUS developed cost and revenue estimates based on fiscal 2001/2002 budgets for over 350 fee and non-fee services. The results of the analysis show that for activities typically supported by fees, the city is expending \$28.5 million while recovering \$14.4 million in related revenue, resulting in a subsidy of \$14.1 million. Exhibit I (page 4) presents the source of funds for user fee services.

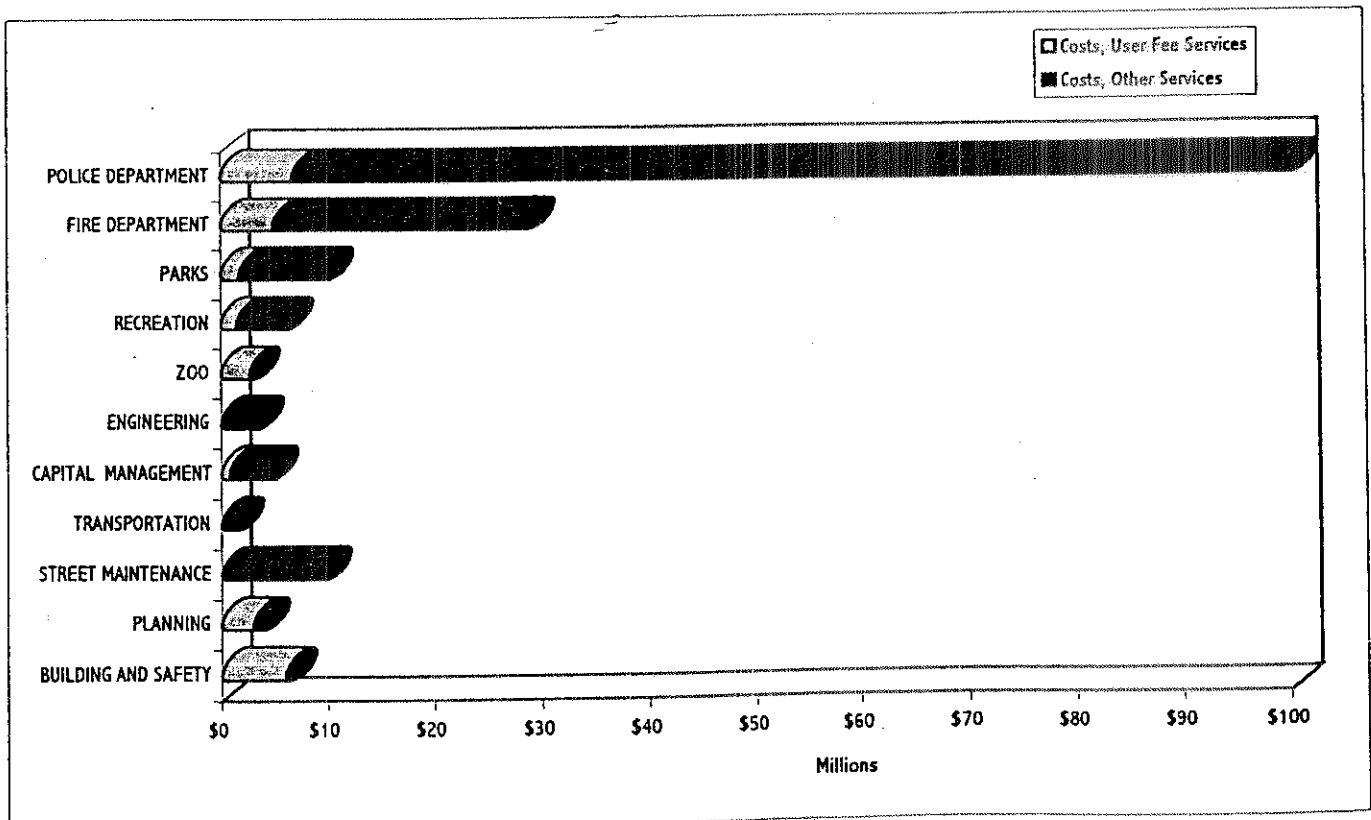
The cost recovery levels at the department level range from 2% for Recreation, up to 196% for Street Maintenance. Within each department, individual fee recoveries range from 0% (there is no fee currently charged), to a significant over-recovery of costs for selected fees. The information about individual fees may be found in subsequent sections of this report. Overall, the city is experiencing a 51% recovery level for the user fees included in this study.

**Exhibit III.** The study's primary objective is to provide the city's decision-makers with basic data needed for setting fees. This report details the full cost of services and presents proposed fees and projected revenues based on recommended user fee cost recovery levels. For this first presentation of findings, this report will only include recommendations for Police and Fire fees. Recommendations for adjustments to fees for all other departments will be added at a later date.

Exhibit III (page 5) summarizes the report's financial analysis of the city's user fee programs included in this study. It is estimated that adoption of the recommended cost recovery policy for Police and Fire fees would increase the specified fee revenue by \$5,103,158 (a 35% increase over the current revenue total).

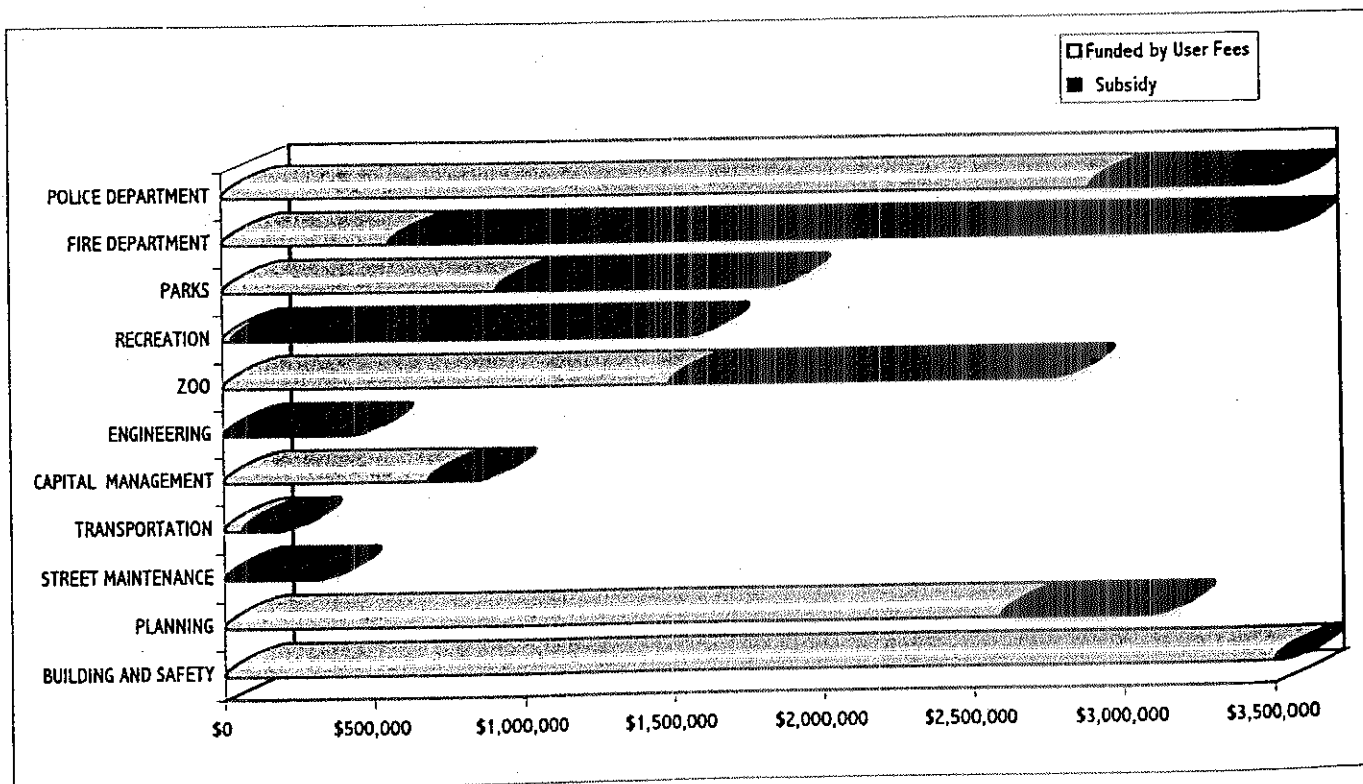
**City of Fresno**  
**Total Costs by User Fee Area**  
**Fiscal 2001/2002**

<i>Department/Division</i>	<i>Total Costs</i>	<i>Costs, User Fee Services</i>		<i>Costs, Other Services</i>	
<b>GENERAL FUND:</b>					
POLICE DEPARTMENT	\$100,534,747	\$6,828,086	7%	\$93,706,661	93%
FIRE DEPARTMENT	\$28,436,171	\$5,012,368	18%	\$23,423,803	82%
<b>PARKS, RECREATION, &amp; COMMUNITY SERVICES:</b>					
PARKS	\$9,724,071	\$1,803,185	19%	\$7,920,886	81%
RECREATION	\$5,896,061	\$1,530,281	26%	\$4,365,780	74%
ZOO	\$2,749,004	\$2,749,004	100%	\$0	0%
<b>PUBLIC WORKS:</b>					
ENGINEERING	\$3,126,576	\$356,799	11%	\$2,769,777	89%
CAPITAL MANAGEMENT	\$4,453,421	\$811,116	18%	\$3,642,305	82%
TRANSPORTATION	\$1,194,725	\$160,583	13%	\$1,034,142	87%
STREET MAINTENANCE	\$9,386,820	\$149,667	2%	\$9,237,153	98%
<b>TOTAL GENERAL FUND:</b>	<b>\$165,501,595</b>	<b>\$19,401,088</b>	<b>12%</b>	<b>\$146,100,507</b>	<b>88%</b>
<b>DEVELOPMENT SERVICES FUND:</b>					
PLANNING	\$3,606,665	\$3,069,198	85%	\$537,467	15%
BUILDING AND SAFETY	\$6,081,665	\$6,081,665	100%	\$0	0%
<b>TOTAL DEVELOPMENT SERVICES FUND:</b>	<b>\$9,688,330</b>	<b>\$9,150,863</b>	<b>94%</b>	<b>\$537,467</b>	<b>6%</b>
<b>Grand Total:</b>	<b>\$175,189,925</b>	<b>\$28,551,952</b>	<b>16%</b>	<b>\$146,637,974</b>	<b>84%</b>



City of Fresno  
Source of Funds  
- User Fee Activities -  
Fiscal 2001/2002

Department/Division	Costs, User Fee Services	Funded by User Fees	Subsidy
GENERAL FUND:			
POLICE DEPARTMENT	\$6,828,086	\$2,898,944 42%	\$3,929,141 58%
FIRE DEPARTMENT	\$5,012,368	\$556,941 11%	\$4,455,427 89%
PARKS, RECREATION, & COMMUNITY SERVICES:			
PARKS	\$1,803,185	\$914,325 51%	\$888,860 49%
RECREATION	\$1,530,281	\$28,965 2%	\$1,501,316 98%
ZOO	\$2,749,004	\$1,490,134 54%	\$1,258,870 46%
PUBLIC WORKS:			
ENGINEERING	\$356,799	\$401,795 113%	(\$44,996) -13%
CAPITAL MANAGEMENT	\$811,116	\$678,246 84%	\$132,871 16%
TRANSPORTATION	\$160,583	\$60,370 38%	\$100,213 62%
STREET MAINTENANCE	\$149,667	\$293,548 196%	(\$143,881) -96%
TOTAL GENERAL FUND:	\$19,401,088	\$7,323,268 38%	\$12,077,821 62%
DEVELOPMENT SERVICES FUND:			
PLANNING	\$3,069,198	\$2,587,854 84%	\$481,344 16%
BUILDING AND SAFETY	\$6,081,665	\$4,537,778 75%	\$1,543,887 25%
TOTAL DEVELOPMENT SERVICES FUND:	\$9,150,863	\$7,125,632 78%	\$2,025,231 22%
Grand Total:	\$28,551,952	\$14,448,900 51%	\$14,103,052 49%



**City of Fresno**  
**User Fee Revenue Analysis**  
**Fiscal 2001/2002**

Department/Division	Costs, User Fee Services	Subsidy	Revenues @			
			Current Fees	Recommended Recovery	Increased/ (Decreased) Revenue	
GENERAL FUND:						
POLICE DEPARTMENT	\$6,828,086	\$3,929,141	\$2,898,944	\$6,160,957	90%	\$3,262,012
FIRE DEPARTMENT	\$5,012,368	\$4,455,427	\$556,941	\$2,398,087	48%	\$1,841,146
PARKS, RECREATION, & COMMUNITY SERVICES:						
PARKS	\$1,803,185	\$888,860	\$914,325	\$914,325	51%	\$0
RECREATION	\$1,530,281	\$1,501,316	\$28,965	\$28,965	2%	\$0
ZOO	\$2,749,004	\$1,258,870	\$1,490,134	\$1,490,134	54%	\$0
PUBLIC WORKS:						
ENGINEERING	\$356,799	(\$44,996)	\$401,795	\$401,795	113%	\$0
CAPITAL MANAGEMENT	\$811,116	\$132,871	\$678,246	\$678,246	84%	\$0
TRANSPORTATION	\$160,583	\$100,213	\$60,370	\$60,370	38%	\$0
STREET MAINTENANCE	\$149,667	(\$143,881)	\$293,548	\$293,548		\$0
TOTAL GENERAL FUND:	\$19,401,088	\$12,077,821	\$7,323,268	\$12,426,426	64%	\$5,103,158
DEVELOPMENT SERVICES FUND:						
PLANNING	\$3,069,198	\$481,344	\$2,587,854	\$2,587,854	84%	\$0
BUILDING AND SAFETY	\$6,081,665	\$1,543,887	\$4,537,778	\$4,537,778	75%	\$0
TOTAL DEVELOPMENT SERVICES FUND:	\$9,150,863	\$2,025,231	\$7,125,632	\$7,125,632	78%	\$0
Grand Total:	\$28,551,952	\$14,103,052	\$14,448,900	\$19,552,058	68%	\$5,103,158

